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Better Buying™
Supplier Roundtable Report

Suppliers' Perspectives on Solutions for Better Costing

KEY TAKEAWAYS FROM THIS REPORT

1. For cost models derived by buyers to determine the price they will pay for a product to be useful, all necessary costing variables must be included.
2. Open book costing needs to respect suppliers' intellectual property and not be used to pit suppliers against each other in a race to the lowest cost.
3. Ring-fencing labor costs will only support improvement of worker wages if the price paid covers the total costs of production.
4. Good communications and dialogue, comparing suppliers with multiple similar characteristics, reducing price pressure, and costing in the context of a long-term business relationship play critical roles in improved costing.
5. Better forecasting helps reduce costs and is valuable for improving costing without raising prices.
6. Cost modeling, open-book costing, and ring-fencing labor costs must be carefully managed by setting guidelines and rules around their use to avoid negative consequences for suppliers.

BACKGROUND

Costing, as it was traditionally carried out in the apparel industry, involved manufacturers identifying the costs of all necessary inputs (i.e., labor, raw materials, overhead, and markup), and then determining a cost-based wholesale price that would be offered to retailers who purchased the product. If estimated costs were above what the manufacturer or retailer anticipated the market would bear, the prototype was sent back to the designers to either be removed from the range of offerings, or make adjustments to reduce the costs. Lowering costs was done, for example, by switching to different materials and trims or reducing the amount and complexity of sewing ("the needle").[1]

Over the last several decades, retailers realized they could make more money by skipping over name brand manufacturers, developing their own private label products, and working directly with factories overseas to produce those. Traditional costing practices were discarded and replaced by value-based costing. With this approach, retailers use past sales data and other insights to estimate what customers will pay for the product, subtract the margins they aim to achieve, and then look globally for factories that will produce the garment for the remaining difference or even a lower price. Some buyers even go as far as to receive a quote from one manufacturer, have a sample produced, and then turn around and offer this important information to a different manufacturer to beat the price of the first. When this approach to costing emerged, there was little consideration to whether the remaining money after the retailer skimmed off its margins was enough to cover the costs of production.

[1] Andrea Kennedy, Andrea Reyes, and Fracesco Venezia provide details on traditional costing in their book Apparel Costing, published in 2020 by Bloomsbury.

This consideration is increasingly unavoidable to buyers according to data collected by Better Buying™ that indicates the prices frequently do not cover those costs, data gathered by the Fair Labor Association and others on the gaps between what workers are paid and various legal minimum and living wage benchmarks, and campaigns that have pressured buyers to ensure living wages are paid to those that make their products.

Buyers are stuck in a difficult situation between stakeholder expectations for better treatment of suppliers and workers, and desires of their customers who have been conditioned to expect ever-lower prices.

Suppliers also face difficulties working with this situation. Alongside the pressures placed on them by buyers and the end customer to produce goods at low cost, inflation has increased the costs of raw materials, labor, energy, shipping, and other cost elements. The combination of top-down (retailer) and bottom-up (inflation) pressures has contributed to poor wages and the exhausting and unsafe working conditions that have plagued workers in the apparel industry for decades.

WHERE THE INDUSTRY IS NOW

Buyers' costing practices are critical to keeping suppliers in business and achieving social and environmental sustainability goals, including paying workers living wages. Several costing-focused solutions have been promoted by buyers and stakeholder initiatives of which three related solutions have been implemented by some buyers:

1) the use of costing models that plug in standard minute values and other details to determine the price they will pay,
2) open-book costing requiring suppliers to provide full transparency on all costing elements, in part to ensure labor is appropriately accounted for, and
3) ring-fencing labor costs to prevent their erosion during negotiation.

It is important to understand, however, that cost modeling and open book costing are sometimes employed by buyers simply to identify ways to cut costs, rather than focusing on doing better for workers.

Suppliers' input on these solutions has been limited. With core competencies in manufacturing and the importance of fair costing to their businesses, suppliers are critical stakeholders whose expertise and concerns should be brought to the table. The goal of this report is to share suppliers' perspectives about the solutions being promoted and to provide their insights about better costing and other business practices needed to support achievement of sustainability goals. The report is based on data collected from suppliers through interviews and focus groups, and a follow-up micro-survey with a larger group of suppliers, collectively what Better Buying™ refers to as a Supplier Roundtable.

Data from the 2024 Better Buying Purchasing Practices Index™ underscores the need for better costing. Fewer than half of suppliers in 2024 (48.9%) reported all orders were priced for compliant production, meaning that the prices paid covered everything the buyer was asking for and allowed the supplier to earn a profit. Of those in the majority whose total costs were not covered, more than eight out of 10 (81.9%) indicated that the prices paid by their buyer failed to cover the basic production costs, including costs of raw materials, component parts, and labor for producing the order.

Negotiation strategies of buyers further compound the problem. Nearly half of suppliers (48.4%) reported that their buyer used cost negotiation strategies that resulted in high-pressure on their business. The most frequently reported strategy, "take it or leave it – meet the target cost or supplier cannot win the order", was used by over half of buyers rated (52.1%). Other commonly used strategies included: "demanding level prices be maintained from year to year, no consideration for inflation" (49.8%), "comparing suppliers only on price rather than a full range of attributes" (44.0%), and "sharing competitors' bids/pressure to meet other competitors' bids across different countries" (42.6%). The 2024 Better Buying™ data indicated that suppliers who experienced high-pressure costing negotiation strategies by buyers tended to have a lower percentage of orders priced to cover compliant production compared to those who did not experience such strategies ($t = 7.183$, $p < .05$). Additionally, A significant negative correlation was observed in 2024 between the number of cost negotiation strategies used and percent of orders priced for compliant production; which means that as the number of high-pressure producing cost negotiation strategies used by buyers increases, the percent of orders priced to cover compliant production decreases ($r = -.186$, $p < .05$).

BETTER BUYING™ INSIGHT

Costing, as currently practiced, is not generating acceptable results. Suppliers continue to struggle with the financial arrangements imposed by buyers, and workers continue to face low wages.

The data shows that costing, as currently practiced, is not generating acceptable results - suppliers continue to struggle with the financial arrangements imposed by buyers and workers continue to face low wages. While the solutions of buyers and stakeholder initiatives are well-intended and hold promise for better outcomes for workers, it's important to understand how these solutions pressure suppliers and the unexpected negative consequences that may result without constraints and guidelines around their use.

PROS AND CONS OF BUYER-DRIVEN SOLUTIONS

Cost Models

One solution promoted by buyers and stakeholder initiatives is the use of costing models to determine the price that will be paid, including determination of standard minute values of labor required to manufacture a product. These models go beyond the basic information that is usually offered by suppliers and attempt to determine prices with line-by-line detailed data about everything the buyer is aware of that is used to calculate, for example, supplier overhead. The allowable costs for each detail is then engineered by the buyer.

Not all suppliers we interviewed worked with buyers using cost models to identify the price they would pay. Cost models aren't relevant when negotiation is primarily based on the "take it or leave it" approach central to value-based costing. While some suppliers indicated that cost models have positive aspects of being easy to use and revealing misunderstandings that can easily be cleared up, some suppliers reported that they are designed to benefit the buyer. One supplier commented that in cost models "buyer dictates allowable profit" (see Table 1).

THEMES	# OF MENTIONS	SAMPLE QUOTES
All cost variables are not always included	8	Beyond the costing, this is something that is another challenge. When we have operation costs - we have to pay, we call it a loss. In Indonesia we have to pay the menstruation leave and production target and attendance allowance. All of this can take out of the costing we talked about before. Workers have a right to days of leave or can work with additional pay, this is by law - secondly, attendance. This is something that actually is never put into the costing framework. So we say to them this is our cost, something we have to consider in our costing. Costing 2.0 - they call it discretion allowance, can check how much we have to pay, added this to the costing model to cover these expenses.
Not used or not appropriate	4	It would be nearly impossible for them to put together "should cost" modeling for all of that. Internally we have some kind of very loose idea of "should cost" modeling - we know generally what we should be able to purchase that item for, from the factory. But right now even that is a really hard thing to follow because of all the fluctuations in the global market - you've got logistics charges, labor costs, material charges are all going up, currency friction, tariffs and duties - all these things that layer upon each other, make cost modeling somewhat moot because it changes weekly.

Table 1. Pros and Cons of Using Cost Models

THEMES	# OF MENTIONS	SAMPLE QUOTES
Designed to benefit the buyer	3	So cost models are certainly helpful to the retailer, right because they can prescribe where they're going to land in the process with their costing. I think that speaks directly to a point that [participant] brought up a little bit earlier with getting IMU goals - what is my initial margin? That essentially is a cost model - that's them looking at their entire assortment saying "I need to have a 75 point something margin when this product hits the floor." I think where that becomes detrimental is sometimes those cost goals are not realistic based on the criteria of the product, serviceability, what the reasonable expectation of the customer may be versus what's being asked for, and you know just general manufacturing process, what can be achieved at a particular cost.
Easy to use	3	It's not so cumbersome that we try to suggest the use of a particular Excel sheet or something, we just happen to follow what is there as per their system.
Should be developed in collaboration with suppliers	3	[Buyer] developed a costing model which considers all of the aspects, so it's not just the cost itself but also the environmental and local (?) at the same time. This is what we see as the benefit. Developed based on the factories, consists of other factories as well, additional payments. This is what we see as the things which is helpful to our factory.
Reveals mistakes	2	Cost models or costing tools - helpful for both buyer and supplier, even sometimes when we find some mistakes, we can check out and correct the mistakes, means we can amend the price on the PO. It is a fair process.
Can provide visibility	1	The cost models also come with a kind of projection, so once the price is fixed and they help us with projections, it's not exactly a cost model, but it's a projection which helps us in planning the raw materials and factory requirements, production requirements, the production capacities.
Reduces innovation	1	So to some degree cost models I think at a grander scale actually hurts the retailer because it takes them out of the competitive position that they think they're trying to drive by having the cost model in the first place. A vendor could potentially bring a product to the table that could fulfill more of the customer's wants and desires with a more reasonable set of expectations fulfilled, than we're able to achieve based on the requirements the retailer gives us to start with - while they're entirely focused on the cost, we could have actually brought something to the table that's better and would have been more lucrative for them had that criteria not been there to begin with.

The most frequently mentioned problem with cost models is that they do not always cover all cost variables, especially when they are developed without supplier input. As an example, one supplier described how in their Southeast Asia production country, " we have to pay the menstruation leave and production target and attendance allowance ... Workers have a right to days of leave or can work with additional pay, this is by law ... This is something that actually is never put into the costing framework." Unless accurate information for all cost variables is included in cost models, the models will underestimate the price the supplier needs to make the product.

BETTER BUYING™ INSIGHT

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Sometimes a single cost model is used for determining the costs incurred by suppliers making vastly different product types. Examples of inaccuracies include efficiency rates that are often overestimated by the buyer and outdated data on minimum wages and benefits.

Ultimately, while cost models can be useful for determining a general idea of what "should be" the price paid, they must be adjusted to reflect the real situation in each country and with each supplier for determination of prices that will actually cover all necessary costs.

Open-Book Costing

Another related solution suppliers are increasingly required to participate with, is open-book costing. This involves making transparent item-by-item details about the suppliers' own costing. Again, some suppliers reported never being asked for detailed costing information – one was from an industry other than apparel and another mentioned that their high-SKU (stock keeping unit), fast-turn business wouldn't allow for that kind of detail in the negotiations (see Table 2).

THEMES	# OF MENTIONS	SAMPLE QUOTES
Conditions for supplier transparency	17	We are happy to share more detailed information as would be needed, and once we see the business grow, that's the general practice of the business is fair practice, and if they want to ask us for anything specific we are more than happy to share. There is nothing from what they've asked us - we give them all the information for what they have asked us, all the breakouts they ask us for are done accordingly at this point of time.
What they won't share	7	There are certain costs which are sensitive that we would not like to give, especially considering the volumes and the kind of relationship we have.
Willing to share all info	6	Certainly scary at first, but after they understand the situation. We give them all the supporting evidence. Not only just talk but all the supporting information and data.
Business history	2	Once we get a sense of the kind of commitment that they can give to the business, in terms of the volumes and the continuity of the business, then it's the ability of the buyer and the know-how of the buyer, if he is asking us a lot of details with the fact that of course he knows all the details and what the market is like, then we do get a sense of it that they know the details and they are trying to be fair and we could open up.

Table 2. Pros and Cons of Open Books and Conditions for Supplier Participation

THEMES	# OF MENTIONS	SAMPLE QUOTES
Consistent costing team	1	Primarily it depends on the consistency of the team, if we think that the teams are changing every few months or years, it doesn't really indicate that we should open up - because it's a long and a slow process and a sensitive and a careful process to come around this. But yes after a few years of working, once we see that there is a kind of commitment, consistency in the intention of the buyer to purchase from us - I'm sure there are a lot of things that they have to look at about the supplier, but we can sense it that they find the designing is fair, the price is fair, the product has been coming fairly, we've always been supportive, so then they could initiate a conversation to an open book and we can take the next stride forward.
Willing to share only publicly available info	1	These two costs are relatively transparent in the market. This is also the main cost of the product.
Supports negotiation and better business	14	Benefits both parties when we share more with long time customers. Even having a fair profit margin decided, so they know how much profits we are adding on our absolute costs so we open our books to that extent. Customer is supportive of making sure we receive a fair profit on the order - we are working more like partners, we try to sustainably work on lowering the absolute costs, and if we can with all our ability and expertise and partnerships then we both work on a single number which we need to reduce. And they know "if we reduce this, then the business is taken care of." Our profits are predetermined - fairly predetermined.
Can be used to squeeze the supplier	9	Fairness of information disclosure - buyers talking about open-book costing for transparency. This kind of information is the source of competitiveness, uniqueness of manufacturers, intellectual property. Without protection, the same buyers using this information to squeeze other competitors for their own benefit - this will be a vicious cycle if buyers are not educated to use this information well.
Not requested or not appropriate	3	Never asked to share detailed cost. If need to change one part, just adds an upcharge or changes that one part, not the full cost.
Accommodates inflation	2	Inflation is part of the costing framework, so it is part of the calculation.
Can help suppliers improve	1	I agree that open-costing exercise - if buyer receive information from different sources, if I'm not feeling competitive on certain items and they show me what others are doing, maybe I can improve item by item to provide the most rational costs.

Most suppliers who were interviewed indicated that there were benefits from sharing certain pricing details, especially information that is already publicly available. They acknowledged that sharing these details can support negotiation and better business, in part by ensuring buyers' cost models are accurate. One supplier open to this transparency explained that,

"If we are open to them, we have the same standard and system to measure the fitting, we have the agreement of the rate, overhead, target efficiency, profitability, so all of these things - make them understand that this is a fair price. There is nothing for them to try to be against - they know if this is fair or not. The fact is, when we open to them, the order increase and we double our business with them. We make them understand the trust of the cost we give to them."

And another added that "asking for labor minute values means buyers can have more realistic information."

However, many suppliers were concerned about buyers using the details of their costing to squeeze them for lower prices and they mentioned various conditions should be met before they share this level of detail. One explained, “This kind of information is the source of competitiveness, uniqueness of manufacturers, intellectual property. Without protection, the same buyers [are] using this information to squeeze other competitors for their own benefit - this will be a vicious cycle if buyers are not educated to use this information well.”

Another supplier similarly shared how checking transparent cost model information is intensive and chips away at their profits: “[cost model] can be harmful because it is so transparent, [buyer company] knows everything. Check the details and get their approval, not just themselves that do the checking, they also involve finance and compliance departments. All the costs are transparent . . . [It’s]so transparent, only a little room left for us to make a profit.”

Thus, while open book costing can be useful for negotiating a fair price, the potential for buyers to misuse the details to pit suppliers against one another is a risk to business that many suppliers wish not to take.
The broader group of suppliers responding to the follow-up micro-survey indicated their willingness to share costing details. Just over 11% of suppliers indicated they would not share costing details with their buyers under any circumstances; more than those (7.1%) who reported that they would be willing to share all costing details with their buyers. Suppliers would be more willing to share costing details when the buyer commits to future business with the supplier, shares sustainability goal setting, and consistently addresses the supplier’s concerns about price and product details (see Figure 1).

BETTER BUYING™ INSIGHT

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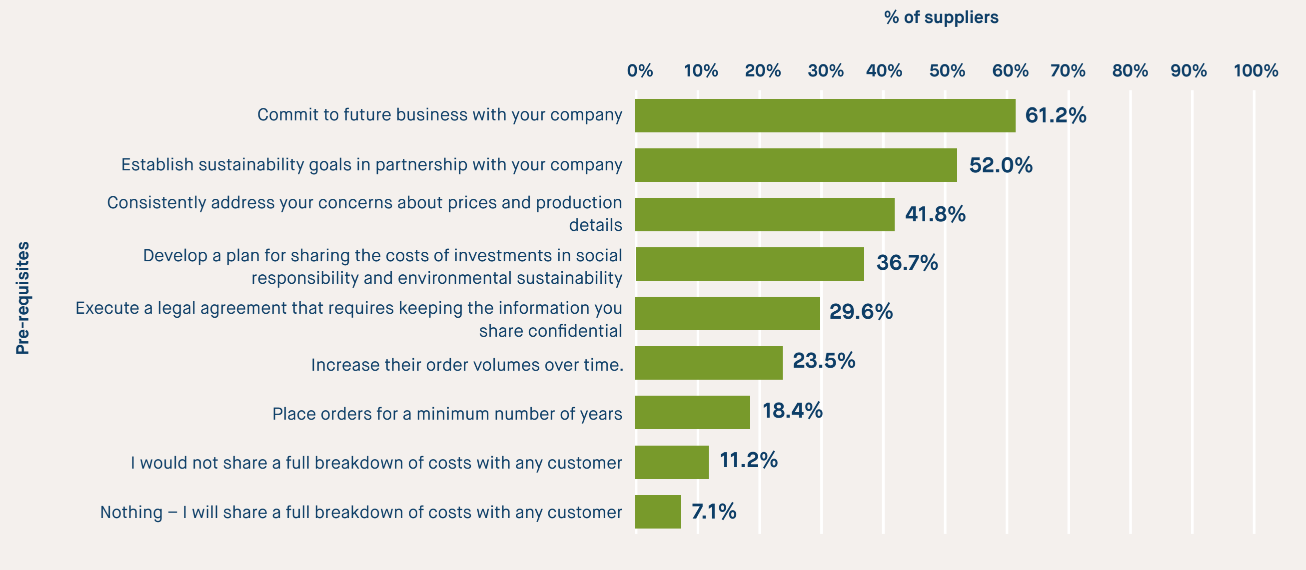

Figure 1. Conditions For Buyers Wanting Suppliers to Share a Full Breakdown of their Costs with Buyers

Ring-Fencing Labor Costs

With cost models and open-book costing in place, some buyers and stakeholder initiatives expect labor costs to be "ring-fenced" and excluded from any negotiations to lower prices. Ring-fencing came up seven times in our interviews with suppliers reporting that ring-fencing labor costs is not necessary nor will the practice ensure workers are paid a living wage. Pointing to the practice as unnecessary, one supplier said, "For the basic costing, there is not negotiation on this ring-fencing because we are talking about direct labor, even for the overhead. This cannot be negotiated because it's like a basic." In other words, this supplier doesn't consider receiving less than the actual labor costs, since that pay is required to run the business.

Furthermore, asserting that ring-fencing would not work to protect labor costs, one supplier explained "Workers' wages are dependent on the total FOB price, not just labor cost."

The need to ensure that the total cost paid is adequate for all buyer requirements is emphasized by this supplier's statement and another made to Better Buying™ by the country manager of Bangladesh for a buyer that is a proponent of ring-fencing labor costs. That statement was that "we ring fence labor costs and then squeeze everything else." This underscores the critical need to make total cost paid the priority, not only the costs earmarked for workers.

"We ring fence labor costs and then squeeze everything else,"

Country manager for buyer, Bangladesh.

When suppliers are asked to ring-fence labor costs but are squeezed on other elements of the cost, their business becomes unprofitable. This is illustrated by another supplier's explanation that, "Sometimes it will happen where even if the buyer pays a better price to the supplier, and the supplier makes sure to provide the workers' pay, makes sure the increased money goes to the worker. Sometimes this means the owner will not make money on the order."

SUPPLIER INSIGHT

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Another supplier shared what will result from ring-fencing labor costs, but not paying the total price necessary to cover all costs, "Having spent a lot of time in factories overseas, I can tell you that ring-fencing does not work - because the first place that the factory regains their profit structure is out of that cost of labor."

Therefore, while the intent of ring-fencing is to ensure workers are provided the wages the buyer expects them to receive, it will not have the intended results without also ensuring the total costs involved in production of orders are covered, including supplier profit, and are accompanied by other mechanisms to ensure suppliers pass on the funds designated for workers. In recognition of this, the initiative Action, Collaboration, and Transformation (ACT) is developing a mechanism to enforce that better wages are paid by negotiating country-level collective bargaining agreements.

BETTER BUYING™ INSIGHT

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To end this section on the costing solutions, it is important to understand another perspective that came up in open-ended comments to the micro-survey. This supplier was blunt in expressing a more difficult problem to deal with in finding the right costing solutions to improve business, workers wages and well-being, and the environment.

"Costing practices are designed only to meet customer's needs. If today the world requires [buyers] to ensure they are paying the minimum wage and that is why they should have an open cost breakdown with all labour components, that is the only reason why they need it - not because of any ethical concerns or sudden interest in labour welfare. These cost breakdowns are also being actively engineered to make sure [buyers] all seem above board. In many open costs it is clearly visible that suppliers are losing money on some of the orders but this is not of concern."

If progress is to be made, it is essential that all actors come together with an honest desire for remediation that addresses all parties' needs.

SUPPLIERS' IDEAS FOR IMPROVING COSTING

In addition to providing insights on the pros and cons of buyer-driven cost modeling, ring-fencing, and open-book costing strategies, suppliers shared their own ideas about how to improve costing (see Table 3). The most frequently mentioned ideas included:

- Developing good communication and dialogue,
- Comparing suppliers with similar characteristics,
- Reducing price pressure,
- Working with a key vendor base with long-term commitments and aggregate level price negotiation, and
- Improving buyer attitude and skill.

THEMES	# OF MENTIONS	SAMPLE QUOTES
Develop good communication and dialogue	21	One thing maybe we haven't touched on is improved communication and being able to communicate. Sometimes doors are shut with the larger organizations, and it's this process, and it's that process - I think there's always a need to have good transparent conversation.
Compare suppliers with similar characteristics	14	This is not fair if the costing standard is based on the basic t-shirt, whatever methodology they apply to a more complicated supplier, this is not fair to compare. I believe most of the buyer do the same - they use one standard for all. Need to make sure the formula is fair for the different suppliers.
Reduce price pressure	10	Our competitors may swoop in behind us and leverage all of the design work that we've done and sell it in significantly cheaper because they don't have that SG&A that they need to offset. That is a big burden for us that seems to be overlooked by the buyers because they tend to be more transactional - how do I get the best cost - without regard for how it came to be.
Work with key vendor base in long term aggregate business	9	I think what you've already referenced, the long-term planning, aggregate business opportunity amongst a key vendor base that can provide them with much of what they need would be helpful, and approaching things that way.
Improve buyer attitude and skill	8	My observation – when buyers negotiate with the factory, they pretend they are experts but they don't actually know the details (Partly the tools and the negotiation, but also the attitude of the buyer).

Table 3. Supplier Ideas for Improving Costing

THEMES	# OF MENTIONS	SAMPLE QUOTES
Achieve target by reengineering	6	Sometimes the buyer will accept, sometimes they'll say it's not aligned with the target cost. Anna will analyze the reason why she can't meet the target price. If my quotation is already a competitive price, she can say sorry this is my best price - only solution is to change the bicycle parts to lower cost options. May reengineer some details to lower the price.
Share realistic target price	5	If buyers could give us a design brief with a target price before we start making samples and start showing them product for final selections, it would give us an idea and we could put the products in those ranges. Even if the buyer knows "this is my price range" and what is going to come across is going to be in that range, and we could make sure that the products are covering all our profits and our costs - fair profits and fair costs. It would keep things more aligned if we start with a kind of a target for what needs to be maintained. Also if we are told the base cost we need to consider - this is very dependent on gold and silver which is volatile and fluctuates by the day. So if we know this catalog is going to be priced at this particular rate, that even when we start pitching the product we know what base metal rates we need to take. So if these things are put in place I think the pricing would be much closer to expectations and fair and all aspects of pricing would be taken care of.
Renegotiate prices to cover increased costs	5	The answer is also the flip - what happens is we have fixed the price at a particular amount. Let's say we have fixed the price at $100 and we have taken a base of $1900 for the gold, but then they'll say the gold has to be considered on this particular date as per the close in London or the prevailing rate, and what if it is higher or lower? If it's higher it's unfair to us, if it's lower it's unfair to them. To make it more fair, if such things are clarified or pre-decided, it could lead to a more fair approach to pricing. It is very difficult to predict an approach and I'm sure they also are trying to cover as much as possible, but eventually, nobody can really pinpoint what is in their favor and which day is going to be in their favor.
Use accurate data	5	Product cost analysis database base on current the material costs, labor costs, machinery costs, time costs and quality costs etc.
Establish procedures in advance for handling price fluctuations	2	There are certain gray areas which if they become clear in that window of offering the product and eventually closing the buying price, then things would be more fair for both sides. It's not just being fair for us, we want it to be fair for them as well. So we could evolve buying pattern, process, timeline which would have certain knowns on both sides, both sides would work with these knowns, so there is no chance of either side being compromised.
Predetermine agreed profit margins	2	Annual conversations about materials so we could negotiate with suppliers, they could negotiate with their sub-factories. And then we had financial agreements with them about their margins. So this really gave us some leverage on an annual basis to be able to negotiate across the whole supply chain and meet their financial goals.

THEMES	# OF MENTIONS	SAMPLE QUOTES
Set target price for raw materials	2	If we have a base cost, we can offer our price and then we can negotiate how much we can probably work on our margins, things around it, make things more appropriate for the target prices and then come to some conclusions. So just ensuring that the variables are fixed on a certain parameter before we close the negotiation and the price would be more helpful.
Give specifications needed for costing	2	One of the things that's interesting is that when we're invited to a comp bid, the designer at [buyer] has already signed off and they know that we like our design, but we don't know what we're competing against. It's never transparent if it's apples to apples. We find out later if we've lost the bid and shop the store - we're like "oh, that's what they went with. Well my goodness we could have given them this sort of a cost if we knew that." We post product digitally on a board, design from [buyer] selects it, they may actually end up selecting items that could go into that same space, and then we're notified through their OBS (own brand specialist) which items are in comp bid. We have that information when we go into costing, but that's all we know. We don't know any other details, what we're up against, is it the same material? The same specs? We don't know anything about it. So that to me is where they have probably more leverage than they know if they shared the data with us.
Give supplier benefits or more pay for from paying living wages and pursuing sustainability goals	2	Pay factory more – one of the sustainability goals is about wellbeing for workers. If the factory makes money from the orders, naturally the factory will pay more to secure the workforce. So if the buyer can pay more to the factory, it is easy for the factory to protect workers' rights.

Part of good dialogue is listening and one supplier reinforced this, sharing that "For the buyers, if they want to take it fairly, they need to listen to the factory's comments about why there is a price difference among their suppliers." And another supplier that was interviewed further emphasized the importance of good dialogue and the outcomes resulting from the buyer focusing on low costs, stating that,

"All of these comments really center around being more of a strategic partner, forming a relationship with your vendor versus it being transactional. So to tie all of that together, it's expectation setting, it's open communication, it's also to some degree paying reverence to the performance of that vendor, and not being entirely cost based at face value. There's a reason people use the phrase "You get what you pay for" - ultimately I think that's why there's a lot of volatility in the market. You move from a really good vendor because you got a good cost, it blows up and now I've got to go find a good vendor that can take me and mix me back into their mix and that causes, from a production standpoint, a whole other set of headaches, how do we get back in again."

SUPPLIER INSIGHT

'There's a reason people use the phrase "You get what you pay for" - ultimately I think that's why there's a lot of volatility in the market. You move from a really good vendor because you got a good cost, it blows up and now I've got to go find a good vendor that can take me and mix me back into their mix and that causes, from a production standpoint, a whole other set of headaches, how do we get back in again.'

When comparing suppliers, care should be taken to ensure they are similar across multiple different characteristics. One supplier remarked that “For the customer, the efficient way is to have 2-3 factories to make the price comparison, but these need to be similar in size/background and located in the same country, otherwise it is not fair to compare the price ... Country and investment the factory makes are the two important dimensions to consider.” Price pressure was summed up by this supplier, “Price is the only standard used to evaluate suppliers.”

One supplier described how working with key vendors on the aggregate long-term business helps improve costing. “If we can work in terms of aggregated business across multiple products sets over longer periods of time - the cost gets better for all of it - if we’re approaching it in a more siloed, transactional way, the cost is inherently higher for each one because you don’t have as long of a runway, you don’t have as big of a volume base you’re working with, you don’t have the predictability you need to get good costing.”

The idea of the need to improve buyer attitude and skill is encapsulated by this supplier’s comment. The “easy approach is to squeeze the sewing workers, very often purchasing managers just don’t know how to ask the right questions.”

SUPPLIER INSIGHT

“Price is the only standard used to evaluate suppliers.”

BROADER BUSINESS PRACTICES THAT HELP REDUCE COSTS

In addition to specific costing strategies that would improve the situation for suppliers, and subsequent achievement of social and environmental goals, suppliers that were interviewed mentioned several practices that help streamline costs and make covering the total cost of production easier (see Table 4).

Giving better visibility through improved forecasting was by far the most commonly mentioned approach, which reflects the far-reaching impacts poor forecasting has on various elements of costing. One supplier explained what is needed and why it is important. “First thing is giving the factory long-term forecasts - 2-3 years Factory can prepare their capacity, invest in a new facility or keep current size.”

THEMES	# OF MENTIONS	SAMPLE QUOTES
Give better visibility	12	It’s more than the price, it’s the buying pattern, the buying timelines - if we know and we are informed, the business could be good/bad and if we are made to feel more of a partner, if there is clarity and communication before time, then everything can be taken care of. If we have a clear buying pattern and fixed - and we have certain pivots, then it should smooth out a lot more.
Reduce changes	4	One thing that is just a negative impact generally, and this is specific to our retailer, they do a lot of design changes during their development process, I mean a lot, and it does inhibit savings abilities, but also ensuring we can stay in the business with them means we need to be able to do these changes, whether that’s sampling or costing or what have you, you know really aggressive ship timelines if we need to meet anything. But that is a part of keeping us in the game when it comes to winning business. Everything is impacted.

Table 4. Business Practices that Reduce Costs

THEMES	# OF MENTIONS	SAMPLE QUOTES
Forecast accurately	3	How we strategize toward the fluctuation of the forecast. In the beginning of the season [buyer] will allow us to do some consultation - look into the global forecast, complexity, timeline. They will offer us which product we would like to consolidate. Normally we would propose to them to consolidate into one buy, allow the factory to produce in a more efficient way, two products in one shot. This is a kind of model that [buyer] offers to us.
Be flexible with production and ship dates	2	Sometimes we produce earlier and hold items, ship later. This relates to our capacity. When we are in full capacity, adidas will allow us to pull forward, do production a few months before and ship a few months later. [Buyer] sometimes gives us the flexibility on ship dates to ship earlier. Normally they check first with their planning. If they need the goods earlier they will allow us to ship earlier, but otherwise we hold them and ship later. Sometimes we need to bill them for the warehousing costs.
Save through technology	2	Technology is the only way that can help us be fair - how to do the same thing more wisely rather than stealing the benefits of every stakeholder. I will promote more technology innovations.
Broaden product categories offered to supplier	1	Open to new areas of products which would be a bit of a price consideration but a great value add-on, things like that also could probably be overall for the better business. [Opening up new opportunities to grow your business with a customer].
Pay sample shipping and testing	1	New sample air freight cost and test cost
Recognize value of middlemen	1	A lot of retailers, there's been some changes over the last twenty some odd years I've been doing this, in that you know a lot of the retailers, when you enter into contract with them, or walking down the street of selling them product, you have to disclose who your factories are. You know they have all of that information. They have a lot more information than any companies would ever give - retailers have changed a lot over the years, it used to be that retailers would take that information of who your factory is, they would allow the product to be placed with you for the first cycle, and then they would go directly to the factory and cut you out of the mix and take that margin for themselves. I think a lot of retailers have found over the years that is not a best practice because managing a factory relationship is not quite as easy as managing a vendor. So we've kind of seen that cycle that comes every 10-15 years, how do we get money out of our supply chain? Well let's just go direct to factory, and then it blows up and they end up wanting a middleman back again.
Reduce Monthly Order Variability	1	Make sure there is even loading to reduce the gap between months - if the gap is too big, it is difficult for the factory to balance their operation in peak season and low season.
Support suppliers to improve	1	Manufacturing excellence program - share technology, best practices of the processes, how we can improve our productivity. They also help us to achieve the target efficiency that we set according to the costing, to make sure we earn the profitability according to what we set. This is how we stay with the pricing.

Similarly, suppliers responding to the microsurvey indicated several costing and non-costing related business practices that help streamline costs and make covering the total cost of production easier (see Figure 2). Better and long-term forecasting was again a top-cited solution to help ensure prices paid to suppliers cover all their costs.

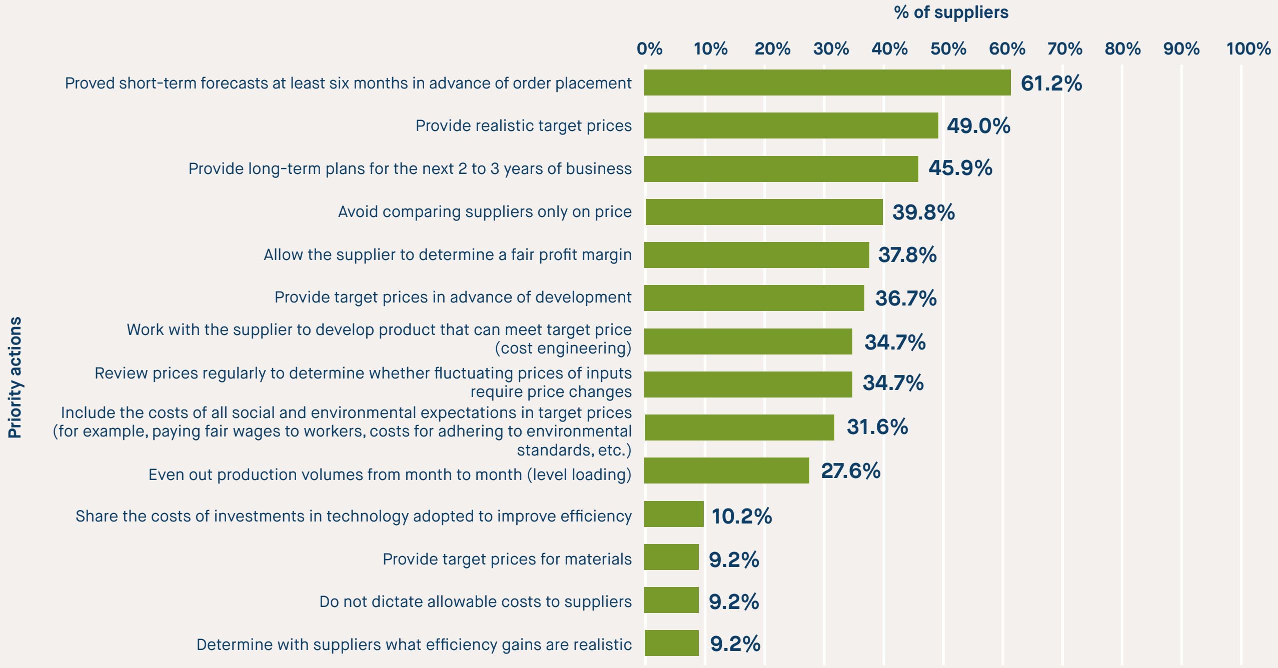

Figure 2. Other Business Practices that Help Ensure Prices Cover All Costs

AN OPPORTUNITY FOR SUPPLIERS

While buyers should participate in better costing, enable suppliers to invest in their business, pay workers more, and address climate change, there is one solution that suppliers need to consider in their negotiations with buyers. That solution is to walk away from the deal if it is not possible to find ways to lower costs so that products can be made profitably and in compliance to the buyer's code of conduct.

When asked about whether they turn down orders that are not priced to cover all costs and make a fair profit, just over half (51%) of suppliers responding to the micro-survey shared that they never or rarely did so (see Figure 3). It is understandable why suppliers frequently agree to lower prices that do not cover all their costs, as there will be consequences resulting from a "walk away" type of decision,including sending workers home early due to lack of orders, but it is one option that suppliers should consider.

BETTER BUYING™ INSIGHT

While walking away from unprofitable deals is challenging for suppliers, collective action could force buyers to adopt more equitable practices and pay the actual costs of doing business.

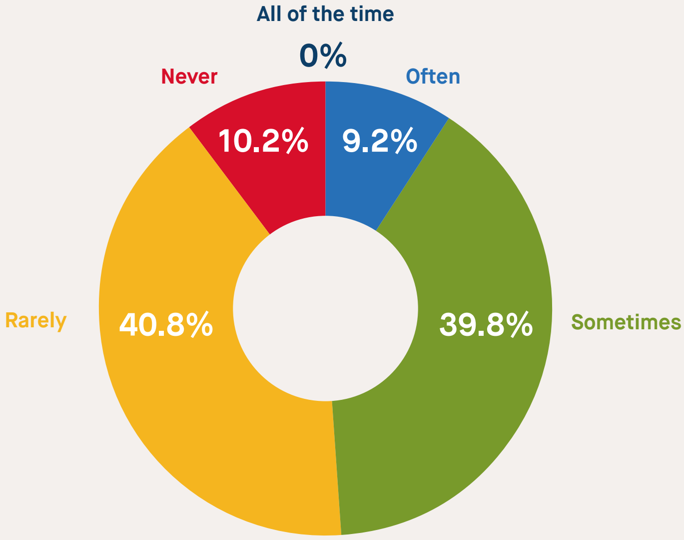

Figure 3. Percent of Suppliers Reporting the Frequency of Turning Down Orders that were Not Priced to Cover All their Costs and a Fair Profit

CONCLUSION

Cost models, open-book costing, and ring-fencing labor costs can contribute to more sustainable business and better worker wages. Buyers need to be careful to use them only as part of collaborative negotiations with suppliers aimed at paying them what they need to profitably produce the product. Simply requiring suppliers to provide labor minute values and other details about costing elements, or ring-fencing labor costs, can lead to negative consequences on suppliers' businesses and subsequently their investment in workers and facilities. Stakeholder initiatives and buyers should set guidelines and rules around the use of these solutions. Only then can progress be made on the "wage issue" that plagues the apparel industry.

ABOUT THIS SUPPLIER ROUNDTABLE

Data were collected between August and October of 2021 using a roundtable and interview format and a follow-up micro survey. A total of 15 individuals were interviewed in seven one-on-one and group sessions. The Better Buying™ researcher provided highlights from Q4 2019 data (pre-COVID) on buyer's costing practices and then asked six questions with relevant probes to solicit the qualitative information provided in this report. Qualitative data analysis used the constant comparative method to identify themes discussed and was facilitated with Nvivo software. The microsurvey was implemented between September 15 and September 27, 2021 and consisted of five questions. A total of 98 responses from suppliers located in 23 countries were received for the costing microsurvey. The largest number of responses came from China and Hong Kong, followed by East Asia, and South Asia (see Table 5).

REGION AND COUNTRY	FREQUENCY (n=98)	%
Asia Pacific	1	1.02%
Japan	1	1.02%
China/Hong Kong/Macao	36	36.73%
China	25	25.51%
Hong Kong	11	11.22%
East Asia (all others except China/Hong Kong)	19	19.39%
South Korea	6	6.12%
Taiwan	5	5.10%
Thailand	3	3.06%
Malaysia	3	3.06%
Indonesia	1	1.02%
Vietnam	1	1.02%
EEMEA (Eastern Europe/Central and Western Asia, Middle East, Africa)	1	1.02%
Turkey	1	1.02%
Latin America (Caribbean, Mexico, Central, and South America)	8	8.16%
Mexico	4	4.08%
Honduras	2	2.04%
Nicaragua	1	1.02%
Argentina	1	1.02%
North America (United States and Canada)	8	8.16%
United States	8	8.16%
South Asia	17	17.35%
India	8	8.16%
Bangladesh	4	4.08%
Pakistan	3	3.06%
Sri Lanka	2	2.04%
Western Europe/ United Kingdom	8	8.16%
Italy	3	3.06%
Portugal	2	2.04%
Netherlands	1	1.02%
Poland	1	1.02%
United Kingdom	1	1.02%

Table 5. Location of Suppliers Responding by Country and Region