

Better Buying™ Deep Dive Report



2022: VOLUME 3, NUMBER 1

“Better” Win-Win Sustainable Partnership



Win-Win Sustainable Partnership includes both the internal alignment of buyer staff on corporate social compliance goals and the buyer’s contribution to reducing industry-wide audit duplication. For buyers and suppliers to make progress on shared sustainability goals, it is important for all internal buyer departments that engage with suppliers to speak with one voice and with an aligned set of priorities. Otherwise, the supplier will receive mixed messages: for example, one department claiming they want to reduce worker overtime, while another department pressures the supplier to do whatever it takes to meet a tight shipping deadline. The Win-Win Sustainable Partnership section of the Better Buying Purchasing Practices Index™ (BBPPI) examines these conflicting demands and the social, environmental, and financial impacts they have on suppliers and their workers.

For buyers and suppliers to make progress on shared sustainability goals, it is important for all internal buyer departments that engage with suppliers to speak with one voice and with an aligned set of priorities.

This category of the BBPPI also covers audit harmonization, a practice that is often considered to be outside the realm of responsible purchasing practices. Better Buying™ includes audit harmonization in this category and considers it a “High Impact” practice because in our research suppliers continue to stress how impactful audit requirements are on their businesses. Furthermore, another of the High Impact practices in the BBPPI – the percent

of orders priced to cover the costs of compliant production – covers ALL of the requirements a buyer places on a supplier to produce an order. If a buyer requires additional audits as opposed to accepting recently completed audits, this contributes to higher costs for suppliers and needs to be factored into the price the buyer pays.

Better Buying’s Win-Win Sustainable Partnership category includes audit harmonization, a “High Impact” practice due to the frequency with which suppliers tell us about the negative impacts of buyer-specific audits on their businesses, and operating costs.

IMPACTS

► **Financial** – Unique audits for individual buyers place a substantial financial burden on suppliers, and divert resources from potential workplace improvements. New questions added to the BBPPI in collaboration with the Social and Labor Convergence Program (SLCP) demonstrate how audit harmonization helps free up resources that can then be redeployed – often for workers’ benefit.

► **Social** – Conflicting demands between internal buyer departments create a confusing atmosphere for suppliers to navigate. Buyers’ stated intentions of wanting to protect workers may lose out to commercial considerations with very real consequences for suppliers’ ability to continue safely and responsibly employing workers.

► **Environmental** – Aspirations for more environmentally-friendly materials, less hazardous inputs, and reduced wastewater are difficult to realize in contexts where high stress, fast turnaround times, and continuous pressure to reduce FOB prices are present. Internal buyer alignment can create the conditions for environmental sustainability to improve, while audit harmonization can free up financial and other resources to dedicate to such improvements.

KEY TAKEAWAYS FROM THIS REPORT

1



Audit harmonization is an important component of any responsible purchasing agenda. The time, financial, and other resources dedicated to auditing detract from other workplace improvements that both directly and indirectly benefit workers.

2



Speaking with one voice across all internal departments creates the clarity suppliers need to make progress toward sustainability targets. When different departments make conflicting demands, negative sustainability impacts are likely to occur.

3



The use of integrated scorecards that include both commercial and sustainability criteria supports a more holistic understanding of supplier performance and better informed sourcing decisions. Integrated scorecards can also be used by buyers to track suppliers' performance and, through at least annual reviews of suppliers' progress, reward those who are making progress against social and environmental sustainability goals.



BETTER BUYING™ INSIGHT



Integrated scorecards that include both commercial and sustainability criteria support a more holistic understanding of supplier performance and better informed sourcing decisions by buyers. Buyers can use them to track suppliers' performance, reward those who are making progress against social and environmental sustainability goals as well as traditional production-related KPIs such as price, timing, and quality.

HOW TO IMPROVE YOUR PARTNERSHIPS WITH SUPPLIERS: BETTER BUYING™ CHECKLIST FOR BUYERS:

- ✓ 1. Discontinue the use of proprietary company audits and assessments. Talk with your suppliers about alternatives that could result in a win-win situation by reducing the amount of time and money devoted to audits, while still ensuring your company obtains critical compliance information from its supply chain.
- ✓ 2. Increase cross-functional collaboration internally to make sure different departments are clear on the company's overarching priorities, and that everyone is working together towards those same goals. Offer company-wide training to empower employees across the company to identify opportunities in their day-to-day work to contribute to these priorities.
- ✓ 3. Use integrated scorecards to holistically evaluate your suppliers' performance and guide them toward improvements. These scorecards help ensure suppliers understand the commercial impact of their sustainability performance and support you in rewarding those who make progress on all relevant KPIs. It also prevents you from mistakenly awarding business to those that only focus on traditional production-related KPIs of price, timing, and quality—a practice that is frequently criticized by suppliers.
- ✓ 4. Align sustainability incentives with the commercial concerns of suppliers - seek to offer more meaningful incentives like premium prices to motivate suppliers and ensure your company is not sending conflicting messages about what your priorities are.
- ✓ 5. Allow more opportunities for transparent communication with suppliers about sustainability targets and roadmaps for achieving those. Ask suppliers what support they need in order to make progress, and be prepared to shoulder some of the financial burden with your suppliers.

Findings

WHAT DOES BBPPI DATA SHOW FOR BEST PERFORMANCE?

This report relies on data collected during Q2 2021 for the 21 brands and retailers that received company reports. In the Win-Win Sustainable Partnership category, it is possible for a buyer to earn 100 points. In order to respond to the questions in this category, suppliers must report that their buyer has set minimum expectations for their CSR/compliance and/or environmental performance. If a supplier reports that their buyer did not set any of these expectations, then the buyer will miss the opportunity to earn points in this category. Of the suppliers submitting ratings for the 21 buyers in this analysis, 94.9% (n=902) responded “yes” to at least one of these two gateway questions and therefore completed the Win-Win Sustainable Partnership category. The percentages reported throughout the report are therefore based on 856 ratings submitted by suppliers completing this category,

not on the total number of suppliers submitting ratings.

The most heavily weighted practice in this category focuses on audit harmonization: whether or not the buyer accepted results from recently completed audits or assessments of workplace conditions in lieu of requiring a new audit or assessment specifically for their company. This report also covers a few practices outside of the Win-Win Sustainable Partnership category that provide additional context to buyers’ sustainability practices, but that are not weighted heavily in buyers’ scores.

Numerical scores in the Win-Win Sustainable Partnership category for the 21 buyers in our analysis ranged from 57.2 to 86.3 points, with an average score of 76.8 points (or 3 stars). The best scoring company, Company 4, belongs to the Apparel, Accessories, and Luxury Goods buyer type and scored 83.4 points, equivalent to 4 stars.

ABOUT THE BEST SCORING COMPANY

BETTER BUYING™ FINDING:

Company 4, the highest scoring company in the Win-Win Sustainable Partnership category, has subscribed with Better Buying™ over multiple ratings cycles, invited its entire Tier 1 list of suppliers to participate in the BBPPI, and achieved an overall response rate of 48.6%. Ninety percent of Company 4’s suppliers reported audit harmonization, compared to 84.5% across all 21 companies, and a high percentage (86.5%) reported that Company 4 staff did not make demands that conflicted with the company’s CSR/compliance or environmental sustainability requirements.

Of Company 4’s suppliers, 96.3% responded “yes” to at least one of the gateway questions mentioned previously, and therefore completed the questions in the Win-Win Sustainable Partnership category. This company has engaged with Better Buying™ over multiple ratings cycles, invited its full Tier 1 list of suppliers to participate in the BBPPI, and achieved an overall response rate of 48.6% - on par with the average response rate across all 21 companies. Company 4’s performance compared to these companies, along with the highest and lowest scores earned by companies on key practices, is shown in Figure 1.

| STARS RECEIVED | ALL BUYER TYPES (n=21) |
|----------------|------------------------|
| ★ ★ ★ ★ ★ | 0 |
| ★ ★ ★ ★ ☆ | 0 |
| ★ ★ ★ ★ | 3 |
| ★ ★ ★ ☆ | 8 |
| ★ ★ ★ | 4 |
| ★ ★ ☆ | 4 |
| ★ ★ | 1 |
| ★ ☆ | 1 |
| ★ | 0 |
| ☆ | 0 |

Table 1. Average Star Scores in Win-Win Sustainable Partnership

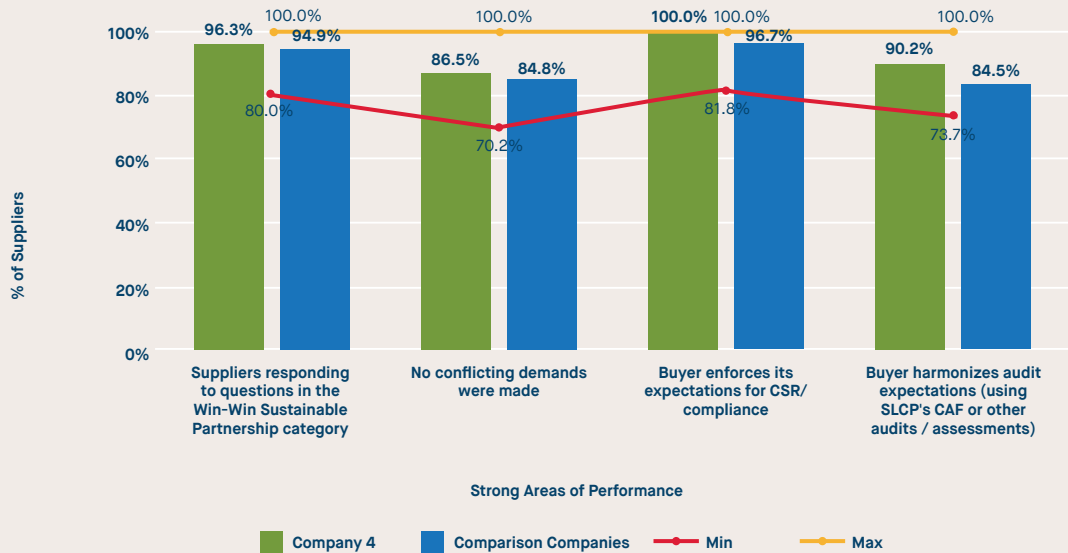


Figure 1. Strong Areas of Performance in the Win-Win Sustainable Partnership Category

BETTER BUYING™ FINDING:

Only 20.0% of the suppliers across all 21 companies reported no sustainability impacts when their buyer's staff made conflicting demands.

Buyer's Conflicting Demands

Most of Company 4's suppliers (86.5%) reported their staff did not make demands that conflicted with the company's CSR/compliance or environmental sustainability requirements, slightly above the average company performance on this practice (84.8%). When conflicting demands are made, they often impact suppliers' sustainability. One supplier explained, "Frequently changing priorities--many competing--make staying on-time challenging and may create some processing inefficiencies." Another commented that their "Buyer's frontline representatives often place

pressure on [the] factory to chase KPI performance at the cost of factory's sustainable production, practicality, and at times goes against the original intentions of buyer's strategic initiatives." In practice, this might look like a buyer demanding a supplier reduce or eliminate worker overtime, while simultaneously requesting shorter production lead times, for example.

demands (Figure 2). The most frequently reported impact was increased cost of doing business (43.8%) followed by overtime within the law or code requirements (41.5%). Of the very small portion of Company 4's suppliers reporting impacts of conflicting demands, most reported high stress on workers/management, overtime within the law or code requirements, and increased worker turnover.

SUPPLIER INSIGHT



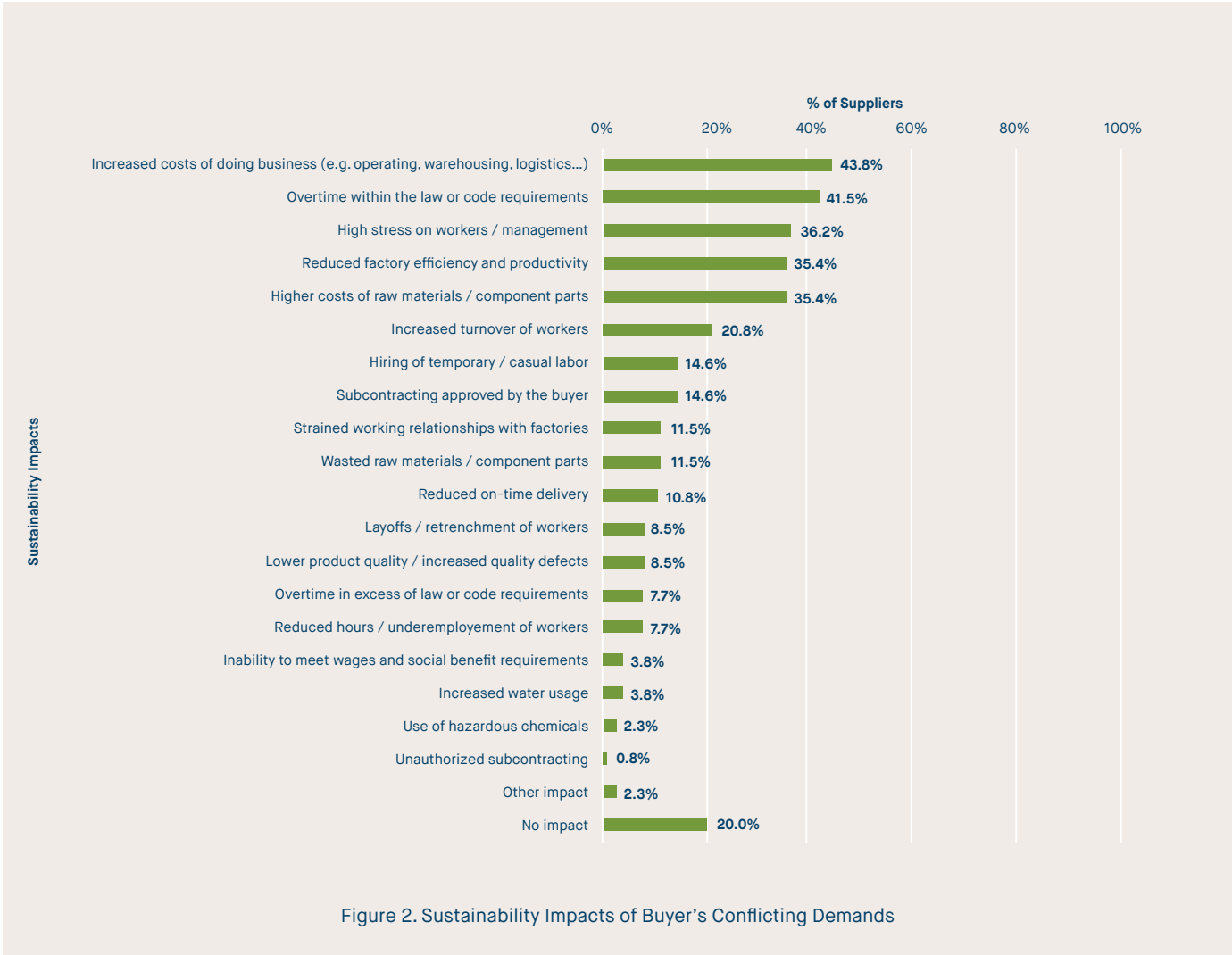
"Frequently changing priorities – many competing – make staying on-time challenging and may create some processing inefficiencies."

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SUPPLIER INSIGHT

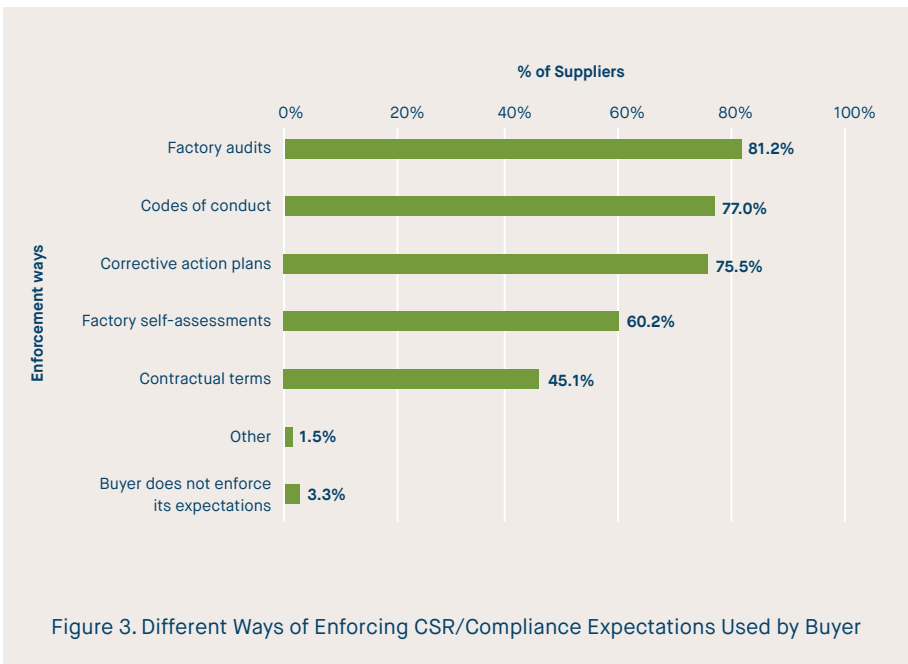


"Buyer's frontline representatives often place pressure on [the] factory to chase KPI performance at the cost of factory's sustainable production, practicality, and at times [go] against the original intentions of buyer's strategic initiatives."



Enforcing CSR/Compliance Expectations

Ten of the 21 companies in our analysis - including Company 4 - had all of their suppliers report that they enforced their CSR/compliance expectations, slightly above the average (96.7%). The BBPPI captures several methods a buyer might use to enforce its expectations (Figure 3). The most frequent method of enforcement across the 21 companies was factory audits (81.2%). For Company 4, suppliers most frequently reported the use of factory audits (94.2%), factory self-assessments (90.4%), and codes of conduct (90.4%).



BETTER BUYING™ FINDING:

Just over half of suppliers across all 21 companies reported savings of up to \$5,000 when their buyer accepted SLCP’s Converged Assessment Framework, with most suppliers (71.3%) investing these savings back in their workplace.

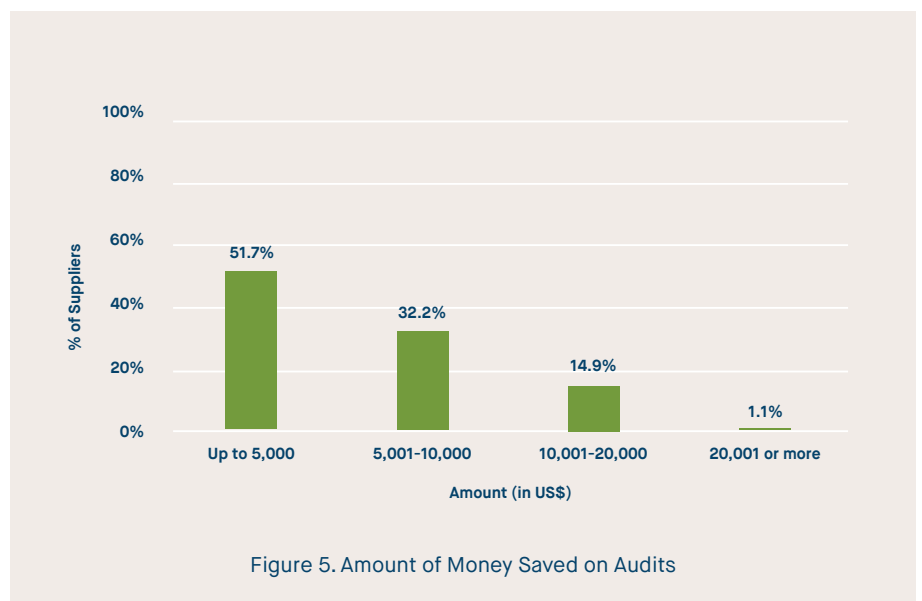
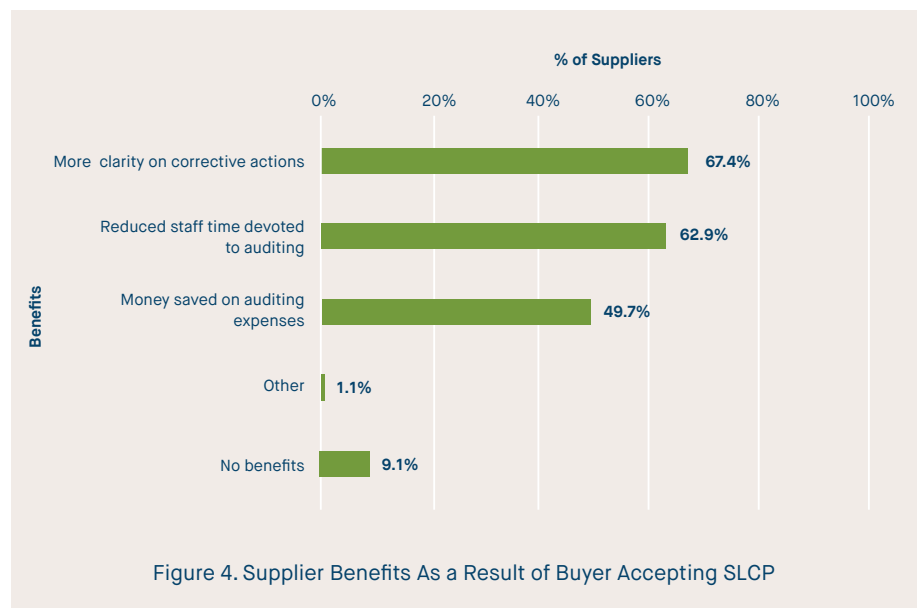
Audit Harmonization

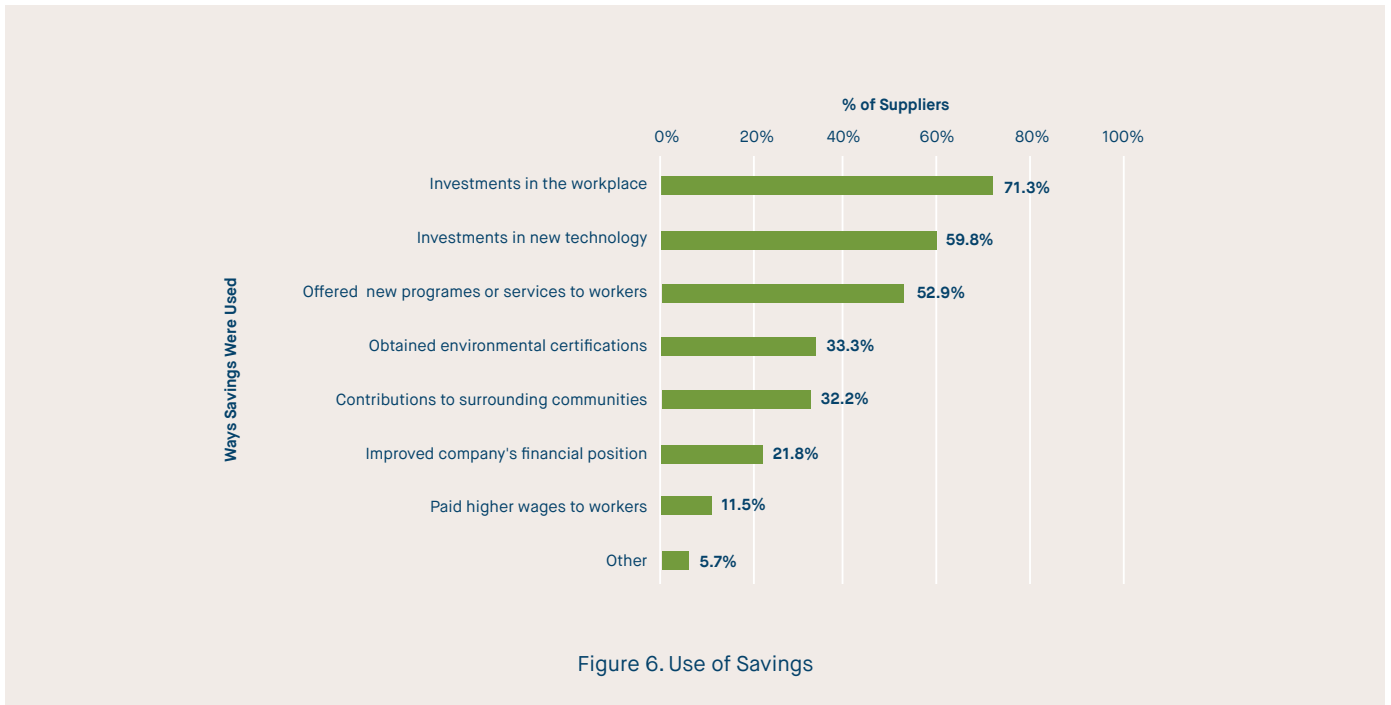
Suppliers who selected factory audits or factory self-assessments as modes of enforcement received the next question about whether or not the buyer accepted results from recently completed audits or assessments of workplace conditions in lieu of requiring new ones. For Company 4, 90.2% of suppliers reported audit harmonization, compared to 84.5% across all 21 companies. New for 2021, the BBPPI now includes follow up questions that were added in collaboration with SLCP to better understand how suppliers benefit from reduced audit fatigue. These additional questions cover the benefit of accepting SLCP’s Converged Assessment Framework (CAF), the amount of money saved as a result, and how those savings were used. Better Buying™ recognizes that the CAF is not the only method available for audit harmonization, and therefore suppliers’ responses to these questions are purely informational – they did not impact buyers’ scores in the Win-Win Sustainable Partnership category.

The most frequently reported benefit of a buyer accepting SLCP’s CAF was increased clarity on corrective actions (67.4% across all 21 companies; Figure 4). Just over half of suppliers for all 21 companies reported savings of up to \$5,000 (Figure 5), and most suppliers (71.3%) invested these savings

back in their workplace (Figure 6). Workplace improvements could cover anything that contributes to making a supplier’s business financially sound, including making up for wasteful, inefficient, or unfair practices in other aspects of the business relationship. Sound supplier businesses create more stable and safe environments for workers – an important indirect worker

benefit to consider. Furthermore, during COVID-19, suppliers made new investments in the workplace to accommodate social distancing and the health of their workforces. One should not interpret that lower rates of investment in areas such as paying higher wages to workers means workers did not benefit from the investments made by their employers.





WHAT DOES “BAD” LOOK LIKE?

BETTER BUYING™ FINDING:

Suppliers to the lowest-scoring company, Company 1.5, reported a range of issues, including conflicting demands, unclear expectations, and lax enforcement of those expectations. Company 1.5’s suppliers were not being given clear directions for how to improve and are not being held accountable for protecting the rights of their workers.

The company with the lowest score in Win-Win Sustainable Partnership, Company 1.5, scored just 57.2 points (1.5 stars). About 9% of the company’s suppliers did not receive the questions in this category because they answered “no” to both of the gateway questions, indicating that the company did not set expectations for their CSR/

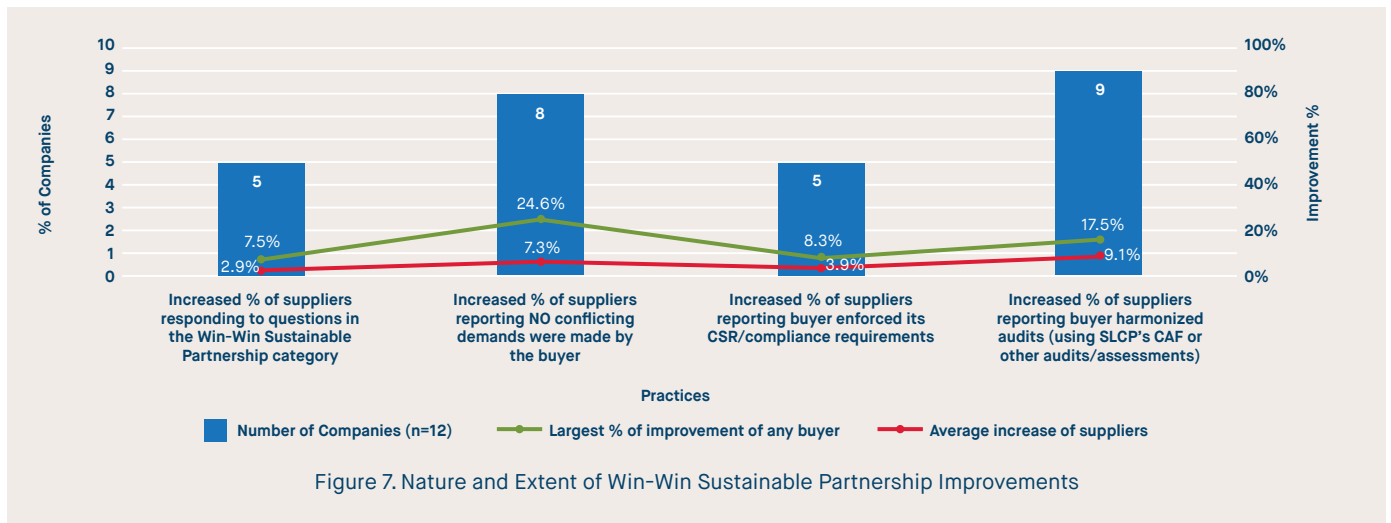
compliance or for their environmental sustainability performance. Thirteen percent of Company 1.5’s suppliers reported conflicting demands, and for these suppliers, such demands always led to business and social impacts including high stress and reduced factory efficiency and productivity. Although most of Company 1.5’s suppliers (96.8%) reported the company did enforce its CSR/compliance expectations when those were set, only 54.8% reported the use of factory audits and 45.2% reported factory self-assessments, much lower than average. Only 73.7% of these suppliers reported audit harmonization – the lowest amount across all 21 companies. Between the conflicting demands, unclear expectations, and lax enforcement of those expectations, Company 1.5’s suppliers are not being given clear directions for how to improve and are not being held accountable for protecting the rights of their workers.

YEAR-OVER-YEAR IMPROVEMENTS

BETTER BUYING™ FINDING:

Nine out of the 12 companies that participated in both the Q4 2019 and Q2 2021 ratings cycles improved their performance on the High Impact practice of audit harmonization.

Twelve companies participated in both the Q4 2019 and Q2 2021 ratings cycles, making it possible to analyze changes in their scores over the past two years. Seven of these companies improved their overall score in the Win-Win Sustainable Partnership category, with increases ranging from four to 14 points. Five companies had more suppliers reporting that the company set expectations for CSR/compliance and/or environmental sustainability, giving them the opportunity to earn more points in this category (Figure 7). Nine companies improved their performance on the High Impact practice of audit harmonization.



OTHER PRACTICES INFLUENCING SUSTAINABLE PARTNERSHIP

Other practices covered in the Sourcing and Order Placement category of the BBPPI provide additional context into buyers’ sustainable partnerships with suppliers. These practices address how suppliers are selected and incentivized.

Most suppliers (73.4%) reported their buyer used an integrated scorecard that includes both commercial and sustainability criteria when making sourcing decisions. This helps create a more holistic view of supplier performance by expanding the focus beyond price, quality, and time, and clarifies to suppliers the weight sustainability plays in the buyer’s decision-making. For example, one supplier commented that their buyer gives “equal importance to the people [and] sustainability practices as much as the focus given to the production related details.” Integrated scorecards can be used to track and compare supplier performance and to reward those that make progress against social and environmental sustainability goals. Buyers should review supplier

performance at least annually and have transparent discussions with suppliers about progress made so far, future goals, and the rewards available for achieving those goals.

The Sourcing and Order Placement category also houses the two gateway questions used to determine whether a supplier will receive the questions in the Win-Win Sustainable Partnership category. Across all 21 companies, 92.8% of suppliers reported their buyer set minimum expectations for CSR/compliance, and 83.8% reported minimum expectations for environmental sustainability. About 5% of suppliers reported their buyers did not set either of these expectations.

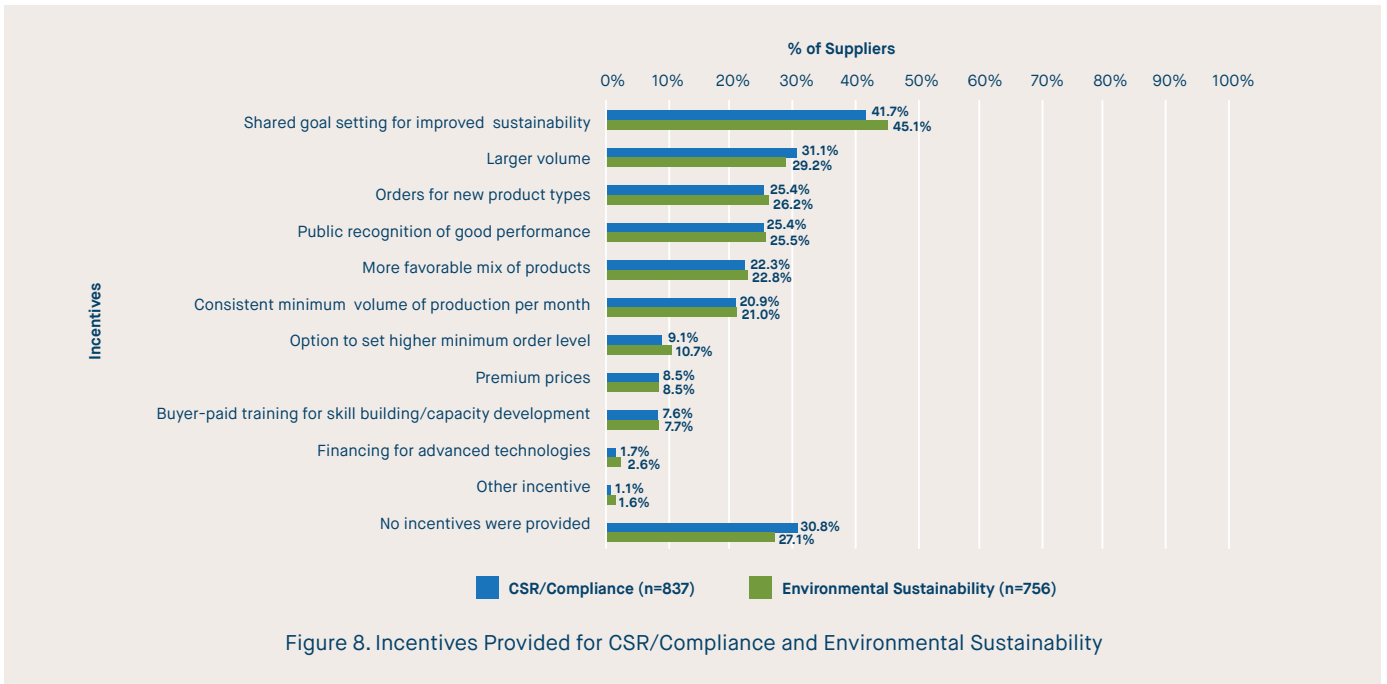
For those that did report minimum expectations, 69.2% received incentives for CSR/compliance performance, while 72.9% received

incentives for environmental sustainability performance. The most common incentive was shared goal setting for improved sustainability, while very few suppliers reported the highly coveted incentive of premium prices. Aligning incentives for sustainability performance with the commercial concerns of suppliers sends a strong message about a buyer’s priorities and demonstrates true integration amongst the various internal departments - it’s also highly motivating for suppliers to see that improved CSR/compliance and environmental sustainability performance will lead to better business. Other incentives described in suppliers’ open-ended comments included financial contributions to sustainability upgrades, implementation of worker career advancement initiatives, and support for worker healthcare projects.



BETTER BUYING™ INSIGHT

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WHAT ARE SUPPLIERS ASKING FOR?

What are Suppliers Asking Buyers For?



Share costs of auditing



Share costs of sustainability upgrades



Treat suppliers as True Partners



Listen to suppliers' ideas and concerns



Include suppliers in discussions about future business



Communicate clearly and consistently across all buyer departments



No more buyer-specific audits

The most frequent suggestion was to decrease the auditing burden on suppliers by accelerating harmonization efforts or otherwise shouldering some of the financial costs associated with auditing. Buyers can make progress on this front by eliminating the use of proprietary audits and instead accepting other widely available assessment options, including SLCP, WRAP, SMETA, and others.

Suppliers' open-ended comments point to several opportunities for buyers to develop and strengthen win-win sustainable partnerships with their suppliers. For example, suppliers frequently suggested decreasing the auditing burden on suppliers by accelerating harmonization efforts or otherwise shouldering some of the financial costs associated with

auditing. Buyers can make progress on this front by eliminating the use of proprietary audits and instead accepting other widely available assessment options, including SLCP, WRAP, SMETA, and others. One supplier explained that their “Buyer is already taking actions in a plan to collaborate between different brands and coordinate only one audit that would be acceptable by all of them.” Reducing the amount of resources dedicated to audits frees those resources up to be reinvested into the workplace, resulting in both direct and indirect benefits to workers.

SUPPLIER INSIGHT



“[Our] buyer is already taking actions in a plan to collaborate between different brands and coordinate only one audit that would be acceptable by all of them.”

Long-term partnerships and open communication were also frequently suggested as opportunities for improvement. Suppliers were very appreciative of buyers that treat them as partners. For example, “They are very consistent. They maintain working relationships over many years and they believe that everyone can profit from [a] close and open business climate.” Another commented, “We are working with [the] buyer as a team and they are also thinking us as business partner. If comes any challenge we are solving that...together.” True partners bring suppliers into conversations about future business and listen to the suppliers’ ideas and concerns. One supplier praised their buyer, saying they were “very transparent to share the

market/ sales feedback to help to set further sourcing strategy.”

**BETTER BUYING™
INSIGHT**



True partners bring suppliers into conversations about future business and listen to the suppliers’ ideas and concerns.

Another demonstration of win-win sustainable partnerships is sharing the cost of sustainability upgrades and recognizing that “Vendor and factories

cannot bear all the cost increase with this alone.” For example, “There are additional costs for using sustainable materials such as BCI Cotton in the product and this needs to be taken into account whilst order negotiations.” Suppliers asked buyers to offer reasonable prices that allow them to make the requested improvements while also maintaining high standards for on-time delivery and quality control. These suggestions connect back to the conflicting demands discussed previously - ensuring that all departments are aligned about the company’s priorities can help ensure that departments aren’t undercutting each other and that suppliers receive a clear and consistent message about what is important.

| THEME | # OF MENTIONS | SAMPLE QUOTES |
|--|---------------|---|
| Sustainable partnership practices identified or suggested by suppliers | | |
| Long-term partnership approach | 23 | They are very consistent. They maintain working relationships over many years and they believe that everyone can profit from close and open business climate. The customers had better not let the audit results affect the business proceedings as long as the factories and suppliers express their willingness to rectify the critical issues. |
| Effective communication | 21 | Always open to discuss when new enquiries or special requests, and ask for confirmation before issuing official documents like purchase orders Honestly we are proud to be partner of our customer because our business is very well settled and they give us an immediate feedback to all our requests |
| Audit harmonization | 17 | The buyer had done many effort to ensure the SLCP transition smoothly. Hope buyer accept other factory assessments, e.g. WRAP, WCA, GSV, SMETA, instead of sticking to their own requirements which is actually more or less the same as those common assessments |
| Embed sustainability across all processes | 15 | They honor their commitments and are very ethical in their dealings with us. The company [buyer company name] has a very open and friendly view toward work and business. They treat their suppliers very fairly and well. They support their own philosophy in terms of sustainability and offering fashion clothing to their customers that is well thought out in terms of development. |

| THEME | # OF MENTIONS | SAMPLE QUOTES |
|---|---------------|--|
| Flexible approach to avoid non-compliances | 6 | <p>Fortunately, we have not had such a problem with the purchasing department so far, if approvals are delayed, they have given us enough time for production so that the overtime limit is not exceeded.</p> <p>Compliance issues like less or no over-time work allowed but requesting shorter production lead time at the same time, which conflicts in reality. So this should be reconsidered for Win-Win partnership</p> |
| Account for sustainability-related costs | 6 | <p>To be more sustainable the cost has to be shared from retailer to supply chain. Vendor and factories cannot bear all the cost increase with this alone.</p> <p>There are additional costs for using sustainable materials such as BCI Cotton in the product and this needs to be taken into account whilst order negotiations.</p> |
| Improve planning practices | 6 | <p>If the buyer can share with the factory what is their coming year plan project upfront, it will be very helpful</p> <p>I would suggest forewarning ASAP on intended production so we can plan production, sourcing so not racing against time to achieve request</p> |
| Capacity building programs | 4 | <p>[Buyer company name] is passionate about generating a sustainable partnership by strengthening social, economic, and environmental aspects of the business through various activities and programs.</p> <p>Provide local resources for the capability build-up and environmental-related 3rd party consultant company</p> |
| Improve ordering practices | 2 | Consolidate the shipment to reduce freight and transportation |
| Other themes | 4 | Suppliers' comments about suggestions on following industry standards, improving supplier onboarding process, and setting targets for improving CSR were coded under the other themes. |
| Examples of buyers' unsustainable partnership practices | 3 | Buyer has move a lot of their job responsibility on top of vendor / factory shoulder, It's take time to learn from all different platform, which is happy but a bit painful. |
| Impacts of buyer's conflicting demands | 3 | Frequently changing priorities--many competing--make staying on-time challenging and may create some processing inefficiencies |

Better Buying Institute is helping brands and retailers improve their practices related to Win-Win Sustainable Partnership. Visit www.betterbuying.org to find out how engaging with Better Buying™ can help you improve your purchasing practices, improve your supplier relationships, and achieve greater supply chain visibility, transparency, and accountability.

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Better Buying (@BetterBuying)



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