Chapter 1: Participation and Scores

Early Buyer Ratings Show a Mix of Good and Not So Good Practices

A pilot test of the Better Buying rating system was conducted between July-November, 2016 to determine if the measures and scoring methods were useful for distinguishing good and bad purchasing practices.

We are sharing key findings from the pilot test to help readers understand the type of data Better Buying is collecting and how it might be used to improve purchasing practices and the buyer-supplier relationship. They cannot be generalized to the entire industry at this point.

How was the pilot test conducted?

We reached out to a number of key audiences including suppliers, personal contacts, industry associations, and worked with the supplier lists of two participating buyers that wanted to gain early information about how they were performing with Better Buying. Suppliers were requested to submit ratings of buyers they believe had the best purchasing practices, buyers they believe had the worst purchasing practices, and if invited by a buyer to participate, to also rate that buyer if it had not already been rated. Many suppliers, however, submitted only one rating – which limits our initial data set. Many ratings that were submitted described "best

practices," so we believe many suppliers decided to test Better Buying by rating buyers with better purchasing practices.

What type of suppliers submitted ratings for the pilot?

Prior to rating a buyer, suppliers were required to register in the Better Buying system and provide basic data about their businesses. A snapshot of the suppliers includes:
• A total of 51 ratings from 30 different suppliers from eight countries.
• Located in Bangladesh, Brazil, China, Hong Kong, South Korea, Sri Lanka, the United States, and Vietnam.
• 77% are suppliers that own factories.
• An average of 21 customers over the last year (range 1-80).
• An average 10-year relationship between the buyer and supplier (range 1-26 years).
• Primarily receive orders directly from buyers; 25% report orders through a third-party.

The suppliers who own factories reported:
• They own a total of 120 factories, averaging 4 per supplier 4 (range 1-17).
• Nearly 250,000 workers in the low season and an average increase of six percent in the high season.
• More than 43% outsource production to independent contractors.
• Most can be classified as cut and sew apparel manufacturing, using North America Industrial Classification System (NAICS). Apparel accessories and other apparel manufacturers, and apparel knitting mills were also frequent participants.
• Some vertically integrated with production of fibers, yarns, and textiles.

All participating suppliers work in apparel with 50% classifying themselves as Licensees/Agents/Vendors and 10% as Brands/Wholesalers.[1]

What type of buyers were rated?

Six buyers were rated more than one time each and two buyers had the minimum number of five supplier ratings required to receive ratings information.[2] The 25 buyers rated in the pilot test included:
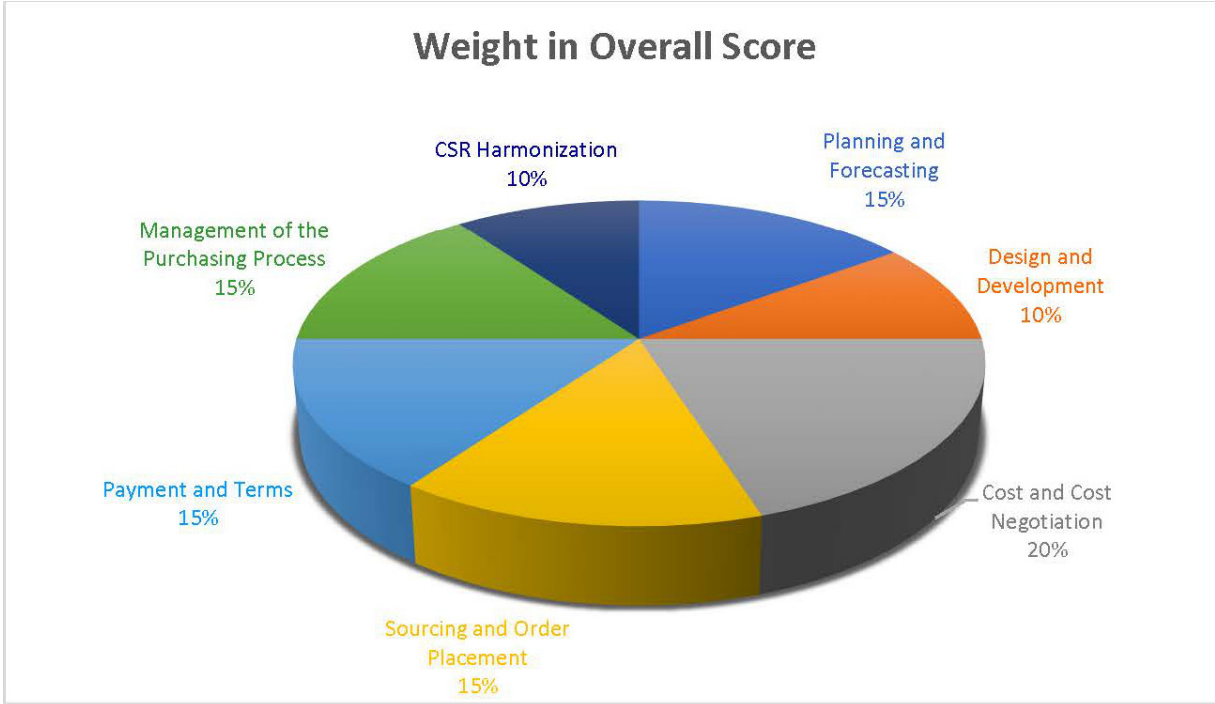
• 12 brands[3]
• 6 specialty retailers
• 5 multi-brand retailers
• 2 intermediaries- buying house and wholesale distributor

The majority are headquartered in North America, though Europe, United Kingdom, South America, and Asia were also represented. For some questions, Better Buying asks that suppliers focus on their largest order from the buyer they are rating. The largest orders referenced in these ratings were produced in 10 countries. The largest number of those were produced in China, followed by Vietnam. Other countries where the largest orders were produced were Bangladesh, Brazil, Cambodia, El Salvador, Indonesia, Philippines, Sri Lanka, and the United States.

How does the rating system work?

Ratings are based on objective and data-driven questions that encompass seven categories of purchasing practices. Click here to review those questions. Each are scored and totaled, and then weighted and calculated into an overall Better Buying score and scores for the seven categories. The figure below shows the

categories of purchasing practices and their weighting in the overall score.

Weight in Overall Score

CSR Harmonization
10%

Planning and Forecasting
15%

Management of the Purchasing Process
15%

Design and Development
10%

Payment and Terms
15%

Cost and Cost Negotiation
20%

Sourcing and Order Placement
15%

Raw data are not released to preserve the anonymity of the suppliers, rather data are averaged across all suppliers submitting ratings for a particular buyer. What we will be reporting over the next few weeks reflects the average of all ratings submitted—the opportunity to share publicly specific buyers' ratings is planned for fall of 2018.

What did these early ratings reveal?

Ratings are based on a simple, 5-star system. The table below outlines average ratings and the range of ratings received for each category. Over the next several weeks, we will delve into the details of each category of rating.

Better Buying Score	Lowest Rating Received	Average of All Submitted Ratings	Highest Rating Received
Overall	2.5	★★★★	4.5
Planning and Forecasting	0	★★★☆	5
Design and Development	1	★★★★☆	5
Cost and Cost Negotiation	0	★★★★	5
Sourcing and Order Placement	0	★★	4
Payment and Terms	2.5	★★★★★	5
Management of the Purchasing Process	0.5	★★★★☆	5
CSR Harmonization	1	★★★★☆	5

The relatively good overall score of 4 out of a possible 5 stars demonstrates Better Buying's success in developing a rating system that is fair for buyers. Suppliers are required to respond to questions covering the full range of purchasing practices encountered in their business relationships and cannot selectively answer only those questions where they have had a bad experience. Thus, relatively bad scores on some categories and good scores on other categories balance out in the overall rating to provide a clearer picture of buyers' full range of purchasing practices. In fact, we observed that most buyers had some things

they were good at and other things where they could definitely improve.

As more data are collected, we will be providing buyers with detailed analyses of their own ratings relative to an emerging industry benchmark. We will then be able to refine the benchmark into similar types of buying companies and disaggregate data in a variety of ways to expand its action ability for buyers, while still retaining the anonymity that is viewed by stakeholders as an essential component of the ratings. In partnership with other initiatives pursuing improved purchasing practices, we intend to ignite a "race to the top" where buyers that are improving their purchasing practices are highlighted.

On the flip side, suppliers will be able to compare their experience in the seven categories with other suppliers in their region and globally. As buyer-specific data become available, they will be able to use it to evaluate their existing customer base and make decisions about which customers they should continue to work with.

Please help us determine if our way of classifying buyers will be useful! Click here to give input on a survey that will take about 3 minutes!

[1]. Suppliers could choose more than one business model, for example Supplier that owns factories and Brand/Wholesaler.

[2]. To protect the anonymity of suppliers, a minimum of five supplier ratings of any buyer is required before information can be aggregated and made available to buyers and eventually published.

[3]. We defined brands as companies having a primary focus on selling their products by wholesale to other retailers or dealers and having minimal retail presence in their own name. Multi-brand retailers were defined as retailing companies selling multiple brands to the end consumers through stores or other retail outlets. Specialty retailers were defined as brands selling directly to the end consumers only through their own retail outlets. Intermediaries were defined as companies that are buying houses, commission agents, traders, or wholesale distributors who neither manufacture nor sell directly to the end consumers.