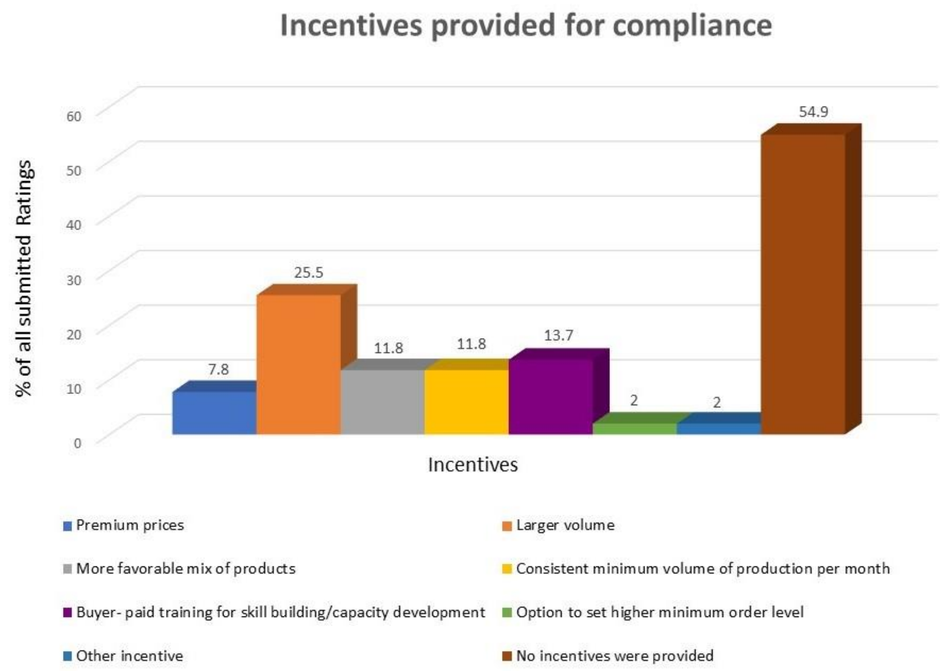
Chapter 8: Sourcing and Order Placement

Some buyers rated so far by Better Buying are demonstrating that order fluctuation can be reduced

Sourcing and order placement considers two topics--whether supplier compliance to codes of conducts is incentivized, and how fluctuation affects month to month order volumes. Buyers rated in the pilot test scored the lowest in this category: out of a 0 to 5 star scale, with 0 marking the lowest score possible, the average buyer ranked 2 stars. The lowest score was 0 and highest was 4 stars.

More than half of the ratings showed that no incentives were provided by the buyer for compliance/corporate social responsibility. But some buyers are providing incentives. Larger volume orders were the most common incentive (25.5%) but the coveted premium prices desired by suppliers was observed in only 7.8% of the ratings.

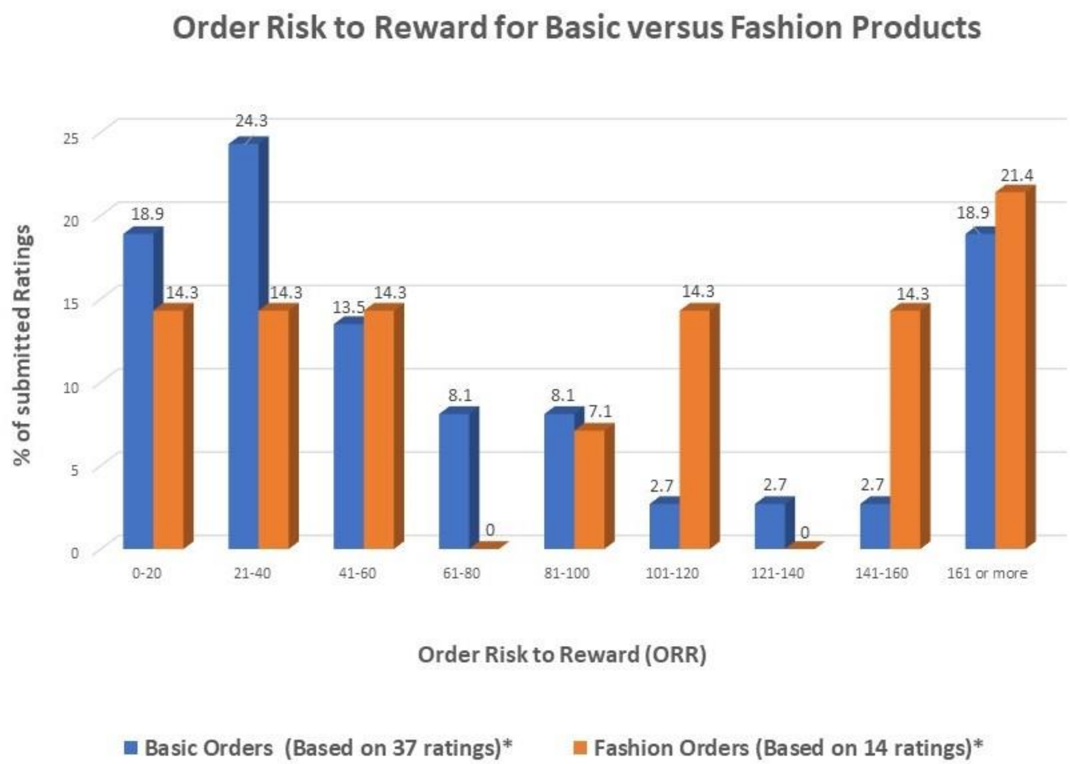


Suppliers face higher costs in complying with buyer requirements for improved working conditions compared with those that don't. Without premium prices or some other incentive, it is a challenge for suppliers to recoup the costs of maintaining internal compliance teams, expanding training for supervisors and managers, and remediating challenges identified. If buyers truly want supplier compliance to their codes of conduct, there needs to be a clearly defined policy and goals for rewarding that, along with regular consultations with suppliers about their progress toward receiving incentives.

Seasonality in ordering, including how much a single buyer's orders to a supplier change from month to month, place hardships on suppliers in planning production and employing a base of productive operators. The total unit volume of orders accounted for in the pilot test ratings equaled over 523 million units for the previous 12-month period. The average annual unit volume the buyers ordered from the supplier rating them was 10,272,179, with the average monthly order at 856,015 units.

We use the information provided by suppliers to calculate a ratio of Order Risk to Reward (ORR) that takes into consideration how much monthly unit volume varies from the average order over the year and measures the volatility in the month-to-month relationship. The risk part of the equation underscores the challenges suppliers face in adjusting to dramatic peaks and valleys of orders. The reward part of the equation considers the average order size received from the buyer with recognition that larger orders generally are more of a benefit to suppliers. The ORR ratio allows comparison of order variability across buyers, despite widely different order volumes received by suppliers. The best situation for suppliers would be to have no risk—the orders would be the same every month. In that case ORR would be 0. The supplier would know exactly how many people they would need for production every month. As order risk to reward goes up, larger numbers reflect higher risks to rewards. In other words, with higher Order Risk to Reward, suppliers face risks in having the right amount of production capacity and may have to lay off workers, require overtime, fail to meet full social benefits, engage temporary labor, or arrange sub-contracts, all of which can place the supplier out of compliance with the buyers' code of conduct. In scoring this, orders that are primarily basic products are differentiated from those that are primarily fashion products because suppliers acknowledge that there are no fashion products without order volatility.

The ORR for all submitted ratings ranged widely from 0 to 346.41. While more than half of the ORRs for basic orders were in the lower numbers, nearly 20% reflected some of the highest ORR scores, which seems surprising given an assumption that basic product can be ordered more consistently from month to month. In general, with fashion orders, ORR scores tended to be higher, but still reflected a wide range of scores meaning that buyers ordering fashion products were often being as consistent as or more so than those buyers ordering predominantly basic fashion.



Just what does inconsistent monthly ordering look like, and why does it happen? The higher ORR numbers were often associated with situations where buyers used the supplier for only a few months out of the year (likely non-strategic/non-key suppliers that are just used when needed). But we also saw relatively high numbers when orders jumped back and forth between, for example, 0 pieces, 200,000 pieces, 1.4 million pieces, 600,000 pieces, etc. over the course of several months.

ORR is an entirely new way of measuring month to month order variation, so as it stands now there is no clarity on when ORR leads to risks to working conditions. With larger ORRs it is easy to understand how difficult it can be for suppliers to plan production and staffing without excessive overtime, temporary labor, or sub-contracting. The range of ORRs observed indicate a tremendously volatile marketplace for suppliers and the divergent efforts buyers are making to control month to month variability. Better Buying will solicit additional information from suppliers going forward in an effort to gain more understanding on the compliance impacts of various ORRs.

How can you use the information Better Buying provides about sourcing and order placement?

Better Buying is looking forward to understanding how buyers of both fashion and basic products are managing to reduce ORR levels, which likely have minimal impact on suppliers and workers. As we identify buyers who are doing well in this regard, we will seek information from them to develop best practice case studies that others can consider.

Suppliers will be able to weigh the benefits of maintaining existing customers and taking on new customers. If a buyer's ORR is high, it may simply be too risky in terms of supplier compliance and reputation, and worker rights, to contract the buyer's production.

We hope you have learned a lot about how Better Buying scores and analysis will be able to inform efficient purchasing and production, and lessen the negative impacts of buyers' purchasing practices on workers.

Marsha A. Dickson, Ph.D. and Doug Cahn

Co-Founders, Better Buying