

# Better Buying™

## Spotlight Report



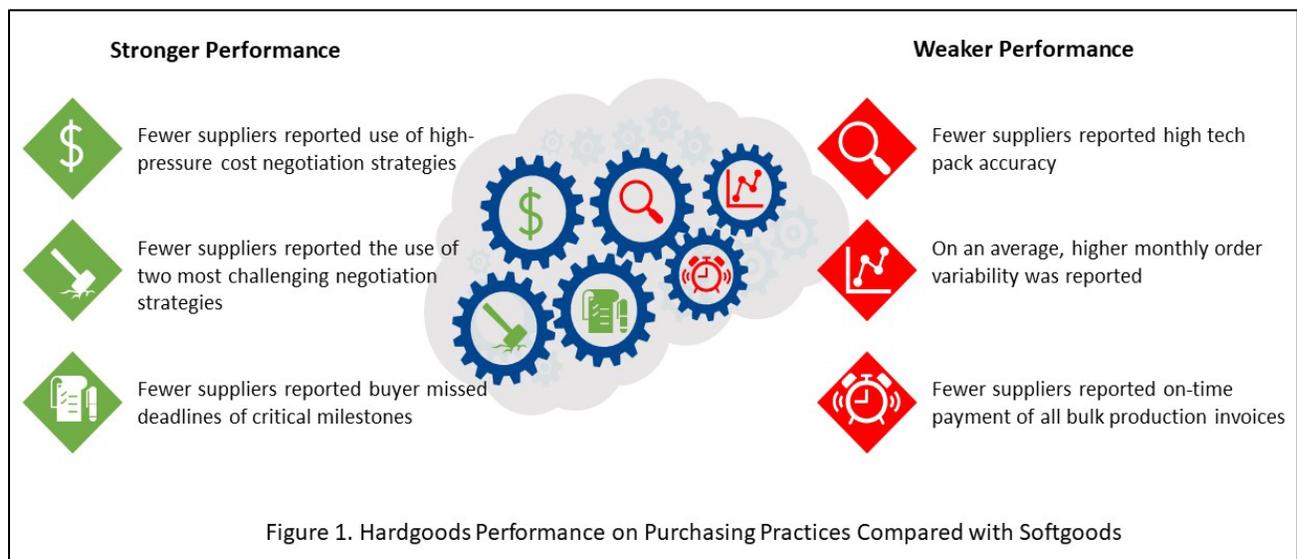
Better Buying Institute, December 8, 2020

## Spotlight on Hardgoods: Highlights from the Better Buying™ Purchasing Practices Index

### Introduction

Having completed five ratings cycles with the Better Buying™ Purchasing Practices Index (BBPPI) including its initial piloting and inception, Better Buying™ has now expanded beyond apparel, footwear, and household textiles to look at purchasing practices in hardgoods product categories. In this spotlight report, we share findings from the 234 verified hardgoods ratings received during the latest ratings cycle in Q4 2019 and how they compare to the 873 softgoods ratings received during the same period (Figure 1). Suppliers from 46 countries/regions participated in the Q4 2019 ratings cycle. Most hardgoods ratings were submitted by suppliers in China, Hong Kong, Taiwan, the United Kingdom, the United States, and Australia. To be classified as a hardgoods rating, a supplier's largest order is for a product category other than apparel, footwear, or household textiles. Examples of hardgoods product categories included are toys, electronics, furniture, kitchenware, home appliances, stationery items, pet products, decorative items, sports equipment, and others.

### Key Findings



We found statistically significant differences between hardgoods and softgoods ratings in all purchasing practices categories except for Planning & Forecasting. Hardgoods ratings scored significantly better in Cost & Cost Negotiation and Management of the Purchasing Process, but worse in Design &

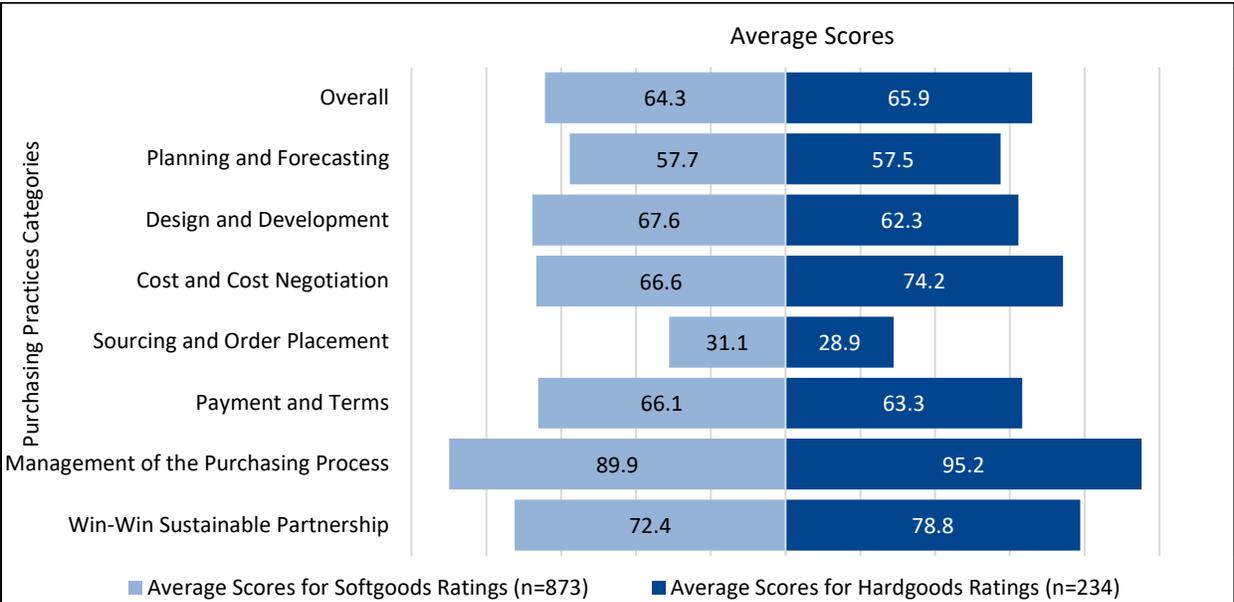
*Compared to softgoods suppliers (79.3%), very few hardgoods suppliers (20.7%) reported that their buyer set minimum expectations for CSR/compliance and/or environmental sustainability.*

Development, Sourcing & Order Placement, and Payment & Terms (Figure 2). Compared to softgoods suppliers (79.3%), very few hardgoods suppliers (20.7%) reported that their buyer set minimum expectations for CSR/compliance and/or environmental sustainability. As a result, few hardgoods suppliers were asked questions in the Win-Win Sustainable Partnership category of the

BBPPI - therefore, we are not reporting further comparisons in this category.

For each of the other categories, we examined the differences in High Impact practices - questions in the BBPPI that are more heavily weighted due to the high degree of impact these practices have on suppliers' sustainability efforts. In cases where there were no significant differences in the High Impact practices, we looked at differences in other practices within the category.

Figure 2. Overall Better Buying™ and Purchasing Practices Category Scores (0=worst performance, 100=best performance) for Softgoods and Hardgoods Ratings



*Areas where Hardgoods Buyers' Purchasing Practices Showed Stronger Performance*

In the Cost & Cost Negotiation category, a total of 52.5% of hardgoods and softgoods suppliers reported their buyer employed high-pressure cost negotiation strategies; however, just 8.5% reporting

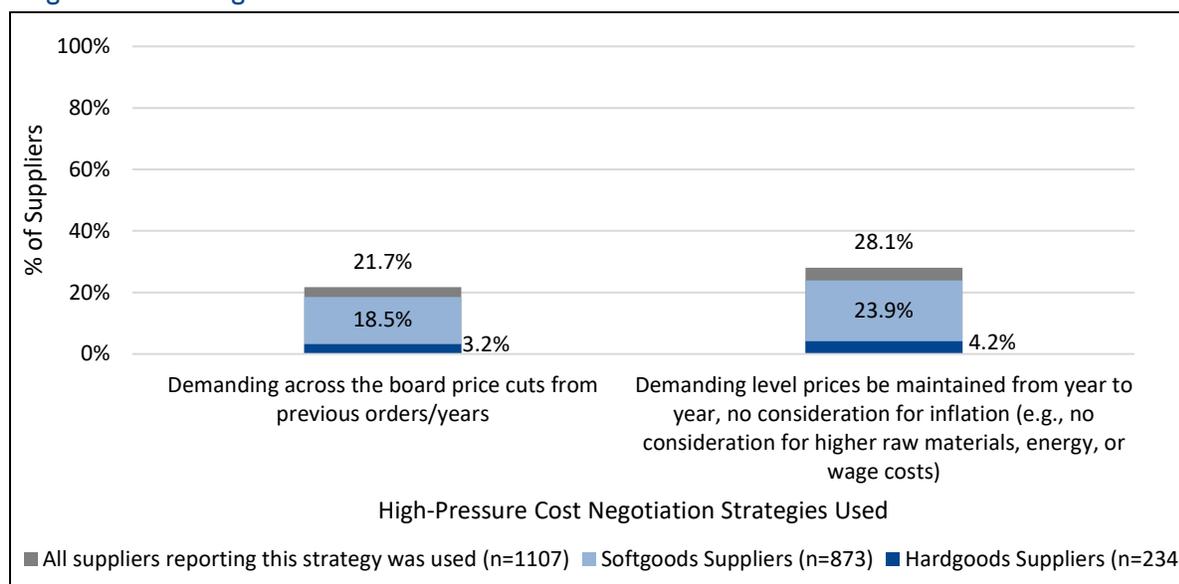
this were hardgoods suppliers whereas 43.5% were softgoods suppliers.<sup>1</sup> Two practices Better Buying™

*Just 8.5% of [hardgoods suppliers] reported their buyer employed high-pressure cost negotiation strategies.*

has often highlighted as particularly challenging for suppliers include demanding across the board price cuts from previous orders or years and demanding level prices be maintained from year to year with no consideration for inflation. Both practices were reported less frequently by hardgoods suppliers

than softgoods suppliers (Figure 3). Demanding across the board price cuts was reported by only 3.2% of hardgoods suppliers compared to 18.5% of softgoods suppliers,<sup>2</sup> while demanding level prices be maintained was reported by only 4.2% of hardgoods suppliers compared to 23.9% of softgoods suppliers.<sup>3</sup> The limited use of such direct pricing pressure on hardgoods suppliers is favorable, as these practices make it extremely difficult for suppliers to pursue any form of sustainability in the midst of severe risk to future business viability. However, there were no significant differences in the percent of orders priced for compliant production, the High Impact practice in the Cost & Cost Negotiation category. Only 38.9% of hardgoods suppliers reported 100% of their orders were priced for compliant production, whereas 36.2% of softgoods suppliers reported this.

Figure 3. Percent of Softgoods and Hardgoods Suppliers Reporting Use of Certain High-Pressure Cost Negotiation Strategies



In Management of the Purchasing Process, a total of 42.5% of suppliers reported one or more deadlines were missed by their buyer; 5.4% of those were hardgoods suppliers - significantly fewer than the 37.0% of softgoods suppliers reporting the same.<sup>4</sup> Adhering to deadlines and key milestones in the purchasing

<sup>1</sup> Pearson's Chi-square=16.73, p=.000, n=1107

<sup>2</sup> Pearson's Chi-square=7.90, p=.005, n=1107

<sup>3</sup> Pearson's Chi-square=10.45, p=.001, n=1107

<sup>4</sup> Pearson's Chi-square=34.34, p=.000, n=1107

process is critical for ensuring workers are protected from abuses such as excessive overtime, unauthorized subcontracting, and delayed wage payments.

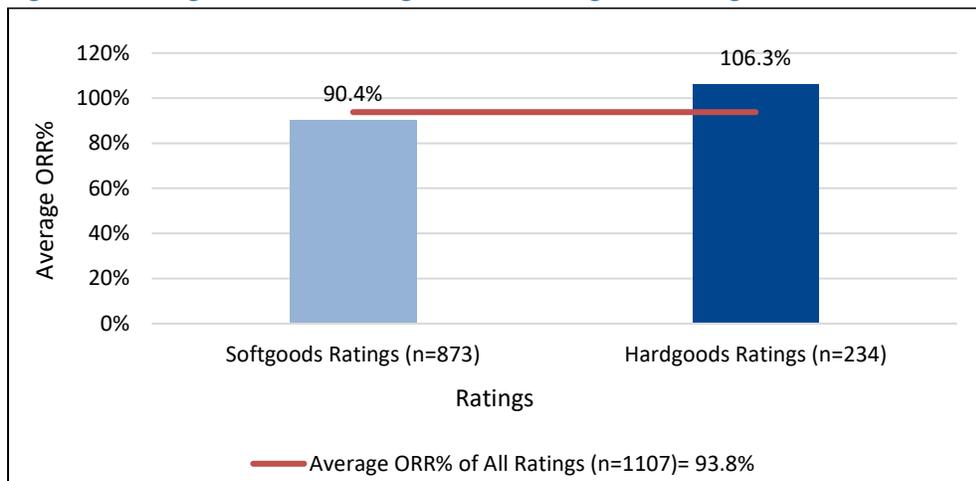
### *Areas of Weaker Performance for Hardgoods Buyers*

Hardgoods suppliers reported significantly worse performance in Design & Development, specifically regarding tech pack accuracy.<sup>5</sup> Of the 44.6% of suppliers reporting 90-100% of their tech packs were accurate, a significantly higher percentage of softgoods suppliers (35.5%) reported this practice compared to hardgoods suppliers (9.3%).<sup>6</sup> Accurate tech packs reduce the administrative burden on suppliers by helping to avoid unnecessary back-and-forth communications and missed deadlines.

In Sourcing and Order Placement, statistical analysis revealed a significant difference in the monthly order variability between softgoods and hardgoods ratings.<sup>7</sup> As shown in Figure 4, in particular, hardgoods suppliers reported higher monthly order variability<sup>8</sup> compared to softgoods suppliers.<sup>9</sup> About 40% of hardgoods suppliers reported monthly order variability higher than the overall average of 93.8%. Peaks and troughs in production make it challenging for suppliers to retain a skilled workforce, and increase the likelihood that subcontracting will occur or that workers will be kept on temporary contracts to flex production capacity with changes in demand.

*Hardgoods suppliers reported higher monthly order variability compared to softgoods suppliers.*

Figure 4. Average ORR% for Softgoods and Hardgoods Ratings



<sup>5</sup> For hardgoods suppliers, this question may have led to some confusion due to its apparel-focused language. We are clarifying this question for future data collection to allow suppliers to indicate whether they produce products to a particular customer's specifications, or if their customers place off-the-shelf orders.

<sup>6</sup> Pearson's Chi-square=47.70, p=.000, n=1107

<sup>7</sup> F=8.31, p=.004

<sup>8</sup> M=106.3%, SD=86.8

<sup>9</sup> M=90.4%, SD=71.3

Another area where hardgoods ratings were weaker than softgoods ratings was Payment & Terms.

*When payments were delayed, hardgoods suppliers reported over 36.2 days of delay, which was 10 days more compared to the delay in receiving payments as reported by softgoods suppliers.*

While 71.8% of suppliers reported on-time payment of all bulk production invoices, 54.5% were softgoods suppliers compared to only 17.3% of hardgoods suppliers.<sup>10</sup> When payments were delayed, hardgoods suppliers reported over 36.2 days of delay, which was 10 days more compared to the delay in receiving payments as reported by softgoods suppliers. Timely payment is a key

component of suppliers' ability to pay workers on time, and therefore must be factored into fair/living wage commitments. Meanwhile, there were no significant differences for the practice of paying all bulk invoices in full.

## Conclusions and Recommendations

### CONCLUSION

Findings from the Q4 2019 ratings cycle demonstrate the applicability of the BBPPI beyond apparel, footwear, and household textiles and the value of engaging new types of supply chains.

### CONCLUSION

While similar challenges plague both hardgoods and softgoods suppliers, the different degrees to which problematic purchasing practices present themselves within each group will require tailored strategies for improvement.

### CONCLUSION

Purchasing practices have long been known as a significant problem for suppliers of apparel, footwear, and household textiles. However, sustainability is diminished in other consumer goods supply chains as well - a better understanding of the role purchasing practices play is sorely needed.

### RECOMMENDATION

Retailers and brands of toys, electronics, furniture, kitchenware, home appliances, stationery items, pet products, decorative items, sports equipment, and others should subscribe for the upcoming Better Buying™ ratings cycle beginning in April 2021.

### RECOMMENDATION

Companies with both hardgoods and softgoods suppliers - including current Better Buying™ subscribers - need to collect objective business data from both parts of their supply chains in order to understand the different experiences of their suppliers and how these are influenced by differences in the nature of the products being made.

### RECOMMENDATION

Retailers and brands of all types of consumer goods should ensure their supply chain human rights due diligence efforts include a focus on understanding the impact of their purchasing practices on suppliers. Without this, other efforts to protect workers will not have the desired impact.

<sup>10</sup> Pearson's Chi-square=21.05, p=.012, n=1061