



Better Buying Institute, April 2, 2020

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## Guidelines for “Better” Purchasing Practices Amidst the Coronavirus Crisis and Recovery

### Introduction

Amidst a near constant stream of reports of order cancellations by big brands and retailers, it appears that suppliers are being left on their own to sustain their businesses through the Coronavirus pandemic and address the impacts of production stoppages on their workers.

Will the efforts being made by some leading companies to improve purchasing practices for mutually beneficial sustainable partnerships falter as retailers and brands prioritize their own short-term cash flow over long-term survival of key business partnerships in their supply chains?

These concerns prompted Better Buying™ to carry out a micro-survey of suppliers to gather quick input on how the Coronavirus is impacting their businesses and workers. We also asked about the specific impact of their customers’ Coronavirus-related purchasing practices, and whether any customers have implemented best practices.

Suppliers around the world were invited through various means to complete the brief survey during the period of March 18 through March 31, 2020. When the survey closed, 294 suppliers from 39 countries had participated (see Figure A1 in the appendix).

The results provide a snapshot of impacts and best practices suppliers globally are experiencing as a result of the coronavirus crisis and guidelines for retailers and brands have been developed on the basis of these. However, regional differences in experiences and impacts on workers require companies to take a more customized approach. All retailers and brands need to communicate closely with their suppliers to understand the challenges faced in their own supply chains and the best strategies for addressing those with an eye toward mutual benefit and shared responsibility.

### Better Buying™ Guidelines

Despite the overwhelming challenges suppliers and their customers are facing, our data from this and previous Better Buying™ surveys, combined with insights in recent industry reports and articles, have been used to create guidelines companies should consider for immediate and wide adoption within the industry. Some guidelines address immediate concerns of Short-Term Crisis Management: Supporting

Supplier Cash Flow, while others are more forward looking to a Coronavirus Recovery period that will require new ways of working. Details of those guidelines are outlined in Table 1.

Table 1. Better Buying™ Guidelines for “Better” Purchasing Practices

BBI Guideline	Description	Industry Alignment
<b>Short-Term Crisis Management: Supporting Supplier Cash Flow</b>		
<b>Collaborate in true partnership with your suppliers.</b>	Work closely with your suppliers by being transparent and frequently communicating about the evolving challenges your company faces and to understand their challenges; engage them in dialogue to find new and flexible ways of collaborating that get ahead of problems and are mutually supportive.	“Collaboration and negotiation will ensure that all stakeholders emerge from the COVID-19 crisis with their businesses intact – and prepared to seize on a surge in activity once demand returns to its previous level.” <sup>1</sup>
<b>Secure the cash your company needs in order to cover its contractual obligations, including accounts payable with suppliers.</b>	Accounts payable includes the purchase orders you have with suppliers and are obligated to pay. Because your company’s own cash flow is likely also suffering, you should explore liquifying assets, issuing corporate bonds, drawing down credit, and/or securing loans as needed to cover your operational costs and accounts payable. Current financial trouble does not release your company from its obligations to suppliers.	Brands and retailers have issued investment-grade bonds to build cash in preparation for facing the full impact of COVID-19. <sup>2</sup> “Not only are companies bankrupting the very people needed to create and deliver product, they may also be putting themselves in a financially unsustainable situation.” <sup>3</sup>
<b>Discuss with suppliers their financial health and whether they have the cash/liquidity necessary to retain workforce for at least three months.</b>	In addition to paying all purchase orders, be mindful of pre-existing financial pressures on suppliers that have resulted from decades of poor buyer purchasing practices and help them obtain financing to pay their vendors and workers. Look to leading multistakeholder initiatives for guidance on approaching government and international agencies for ways to help suppliers.	L’Oréal is shortening payment terms for some suppliers and prioritizing payments to suppliers who may go out of business. Unilever is offering early payments to its most vulnerable small and medium-sized suppliers. <sup>4</sup>
<b>Accept and pay all existing purchase orders for goods that have been shipped, are ready or in progress, or are cut. Do not resort to</b>	Purchase orders for all suppliers globally should be paid on-time if not paid in advance (a best practice) and in full. Pay orders according to the original terms, even if shipments are pushed back or orders are reduced. Do not open the PO to	195 investors representing \$4.7 trillion in assets under management are urging companies to maintain supplier relationships by adhering to timely and prompt payments. <sup>5</sup> Some brands have committed to taking their Bangladesh orders. <sup>6</sup>

**outright  
cancelations.**

renegotiate prices unless you are willing to incorporate suppliers' new expenses.

**Rationalize current  
assortment plans and  
reconfigure orders to  
continue producing  
viable products.**

Evaluate previously placed orders to see if there are any styles that will be relevant for consumers during the crisis period, or still viable later in the season. Collaborate with suppliers on orders in progress and for upcoming months to identify alternatives to canceling orders.

Brands and retailers may still have opportunities to use online channels to sell comfort clothing to home-bound consumers. Break collections into groups that track alongside the pandemic/quarantine situation as it evolves.<sup>7</sup>

**Engage suppliers to  
manufacture masks  
and other needed  
personal protective  
equipment for  
workers on the front  
lines.**

Some suppliers can easily take on this new line of products or could do so with technical guidance and/or new equipment. Make sure workers themselves are not put in dangerous situations and that they have PPE. Pay up front for these orders and acknowledge suppliers by company name in public relations about these efforts.

Suppliers need purchase orders in place before they can have employees return to work.<sup>8</sup> Several brands are ramping up production of PPE.<sup>9,10</sup>

**Extend delivery  
dates/accept shipping  
delays, as necessary.**

Shipping logistics challenges, delays in receiving raw materials, and other backlogs may have resulted in delays in goods exiting factories or arriving at your stores/distribution centers. Do not penalize suppliers for delays and accept alternative shipping methods and associated costs.

Suppliers' inability to obtain raw materials might necessitate more expensive shipping methods.<sup>11</sup> Countries like India that are locked down to contain the spread of the virus are experiencing delays at ports and trucker shortages.<sup>12</sup>

**Pay a portion of  
orders that have not  
been cut and future  
orders that are  
affected by changes  
in volume, have  
delayed shipping  
deadlines, or are on  
hold.**

Focus especially on covering costs of raw materials that are already in inventory waiting to be cut and paying cut make costs to ensure workers can be retained.

Bangladesh Garment Manufacturers and Exporters Association (BGMEA) President Rubana Huq requests brands and retailers pay at least the cut make cost, which represents on average 25% of the total FOB price.<sup>13</sup>

**Engage with Better Buying™ and our Learning Loops**

Our Learning Loops program emphasizes bringing suppliers in to co-create solutions that maintain sustainable partnerships and the resilient supply chains that will be needed when demand picks up again. Through this collaborative process, Better Buying™ helps companies use supplier input to identify specific opportunities to improve purchasing practices, develop custom micro-surveys to create a dialogue with suppliers and KPIs to measure success, and engage in the change process.

## Crisis Recovery

**Keep human rights/sustainability/compliance staff intact to support recovery that is socially, economically, and environmentally sustainable.**

An anticipated crush of orders as demand returns and temptations to focus solely on economic recovery will bring new challenges for workers and threaten hard won social and environmental performance improvements that have been achieved over the years. The ongoing challenge subcontracting has played in ensuring worker rights may be exacerbated. It is not apparent who is responsible for ensuring subcontract facilities survive the crisis.

An anonymous industry source has heard reports of anticipated cuts to compliance teams, leaving companies exposed to various risks. For example, in response to COVID-19, one factory owner fled Myanmar in anticipation of payday. Despite producing orders for well-known European brands, it is uncertain whether those brands will step in to responsibly handle this wage theft since the facility was a subcontractor.<sup>14</sup>

**Work closely with suppliers to plan and secure capacity needed and provide updated forecasts.**

An ongoing challenge for suppliers in times of “normal” business operations is having the visibility necessary to plan production efficiently and in ways that support good working conditions. Strong planning and forecasting practices will be even more important when demand resumes and orders start flowing in. Maintain open dialogue with suppliers to address capacity issues that arise.

Prepare for business recovery now by taking inventory of all available stock and getting needed materials in stock now. Place orders early in anticipation of global supply chains becoming overwhelmed.<sup>15</sup>

**Obtain the cash necessary to pay up-front or upon delivery for new orders.**

Long payment terms coupled with long development cycles where suppliers incur costs and essentially provide credit for their buyers for months on end will likely be impossible during the recovery phase and should not be part of a sustainable business plan. Expect to pay in advance, pay on delivery, or secure letters of credit for suppliers.

“Advance payment and shorter payment windows allow suppliers to maintain better cash flow, affecting their ability to pay wages on time. But the vast majority of brands and retailers do not offer such payment terms.”<sup>16</sup> BGMEA President Rubana Huq is open to flexible terms.<sup>17</sup>

**Work closely with suppliers to plan needed development and production time and time-and-action (TNA) calendars allowing mutually agreed shipping deadlines. Expect and accommodate**

Some materials may require longer than normal lead times and cargo space may be difficult to obtain. Develop TNA that work for all supply chain partners, and plan to adjust them as new information becomes available. Work with suppliers to accommodate shipping delays that arise and help shoulder

Buyers need to build delivery delays and logistics disruption into their lead times. Pre-booking air freight and trucking capacity now can help mitigate these risks.<sup>18</sup>

**transportation delays.**

the burden of increased shipping costs if alternative methods are needed.

**Closely coordinate with nominated raw materials and other suppliers to align lead times, deliveries, and payment terms with Tier I suppliers' needs.**

Even under normal conditions, Tier 1 suppliers often face penalties for shortcomings of nominated raw materials suppliers. Engage in enhanced management of these relationships in ways that work for everyone.

During the initial phase of the COVID-19 crisis when suppliers were having trouble obtaining raw materials, some buyers penalized their suppliers for the resulting shipping delays.<sup>19</sup> Poor buyer practices now will create a lack of trust between Tiers and jeopardize long-term partnerships.<sup>20</sup>

**Make efficiency a high priority in corporate operations and day-to-day business with suppliers.**

Normal travel associated with global sourcing and production may be slow to resume and carries high costs as well as delays in decision-making. Implement virtual fittings, onsite or virtual approvals, and virtual meetings with suppliers to streamline communication and speed to market.

Clear communication and accurate data will be critical when production resumes. Buyers and suppliers need to be closely aligned to anticipate the right inventory.<sup>21</sup>

**Subscribe with Better Buying™**

The practices that will enable companies to survive this crisis are key elements of long-term, mutually beneficial sustainable partnerships. Better Buying™ works with companies to strengthen these partnerships and identify weaknesses that risk their long-term viability. Through company-specific data collection and analysis, as well as industry-wide reporting, Better Buying™ can provide the transparency and insight needed to future proof your supplier partnerships.

## Our Evidence

### Short-Term Crisis Management: Supporting Supplier Cash Flow

#### *General Problem*

Unquestionably, all supply chain partners are facing immediate cash flow challenges. While retailers and brands are just coming to terms with the situation related to shuttering their stores, supplier cash flow problems began at the end of the year and reflect a two-wave crisis that will compound in the months ahead when business resumes.

A first wave of the cash flow crisis hit suppliers at the beginning of the year when COVID-19 ravaged China and

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*“All of the confusion on current and future orders coupled with lack of payment, goods stuck in the production process as WIP, ordered but unusable fabric, and inability to ship has created a short-term liquidity crisis. It has caused an inability for us to pay our vendors, employees and landlords. All cash is being preserved to pay our employees first and foremost.”*

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~ Supplier

affected production of finished goods, the availability and price of raw material supplies, and shipping of goods. Now, suppliers have entered the second wave of the cash flow crisis encompassing the drop in consumer demand and the specific ways their buyers are reacting.

Supporting immediate supplier cash flow is of critical importance to the future of the industry since this will determine suppliers' ability to keep their workers and to efficiently deliver quality items when production resumes.

Without a concerted effort to support suppliers over the next several months, Better Buying™ believes more workers will be negatively impacted and economic recovery will be delayed.

*"We are screwed big time."*

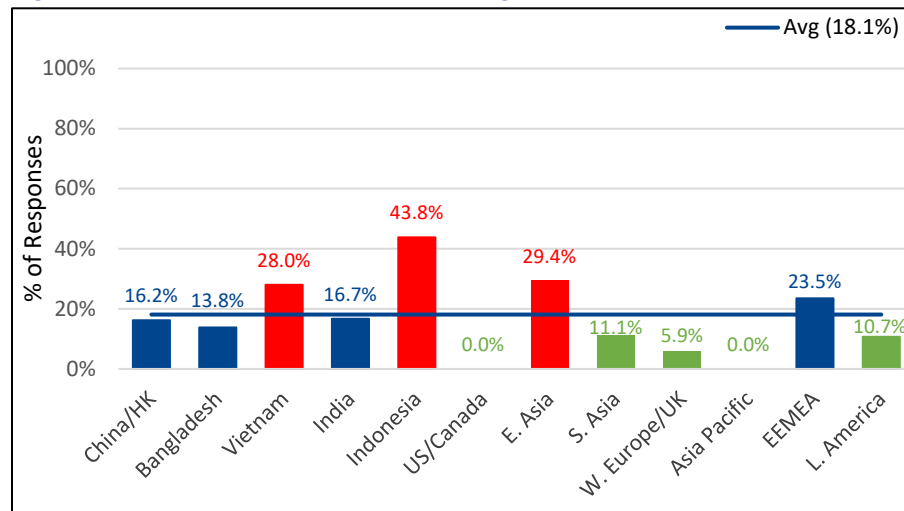
~ Supplier

### Supporting Data

A first-wave of challenges affecting supplier cash flow began at the beginning of the year when COVID-19 brought China's and East Asia's production and distribution to a virtual standstill.<sup>22</sup> The region's role in textile production meant those challenges extended broadly to suppliers around the world. As seen in Figure A2 (see Appendix), 35% of suppliers reported inability to obtain raw materials for existing orders while 22% reported that those materials were available but at a higher cost. Delays associated with production meant shipping delays also occurred with 12% of suppliers reporting they had unplanned airfreight shipments.

Over 18% of suppliers reported they had been unable to secure cargo space, but the situation was much more of a problem for suppliers in Indonesia, East Asia, and Vietnam as compared with suppliers in Asia Pacific, Western Europe/UK, Latin America, and South Asia (see Figure 1).<sup>1</sup> A similar percentage of suppliers indicated they were unable to reach shipping ports, with South Asia, India, and Bangladesh more adversely affected (see Figure 2).<sup>2</sup>

Figure 1. Suppliers Unable to Secure Cargo Space<sup>3</sup>



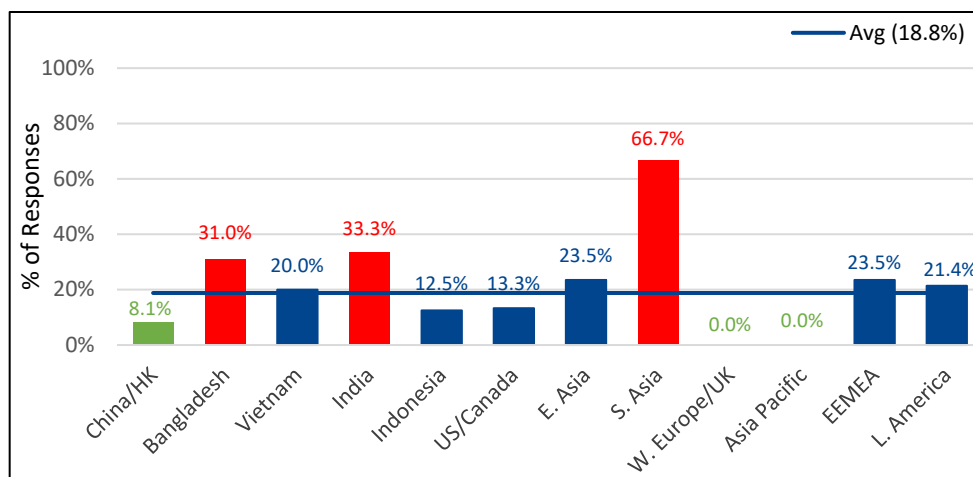
Note. The % are calculated based on 288 responses. The 6 countries with the most supplier participation and other participating regions were analyzed for significant differences within % of responses. Bars in blue indicate regions where suppliers are suffering similar to the global average, whereas red indicates regions where suppliers are suffering more than average and green where they are suffering less than average.

<sup>1</sup> Pearson's Chi-square=20.31, p=.041

<sup>2</sup> Pearson's Chi-square=31.38, p=.001

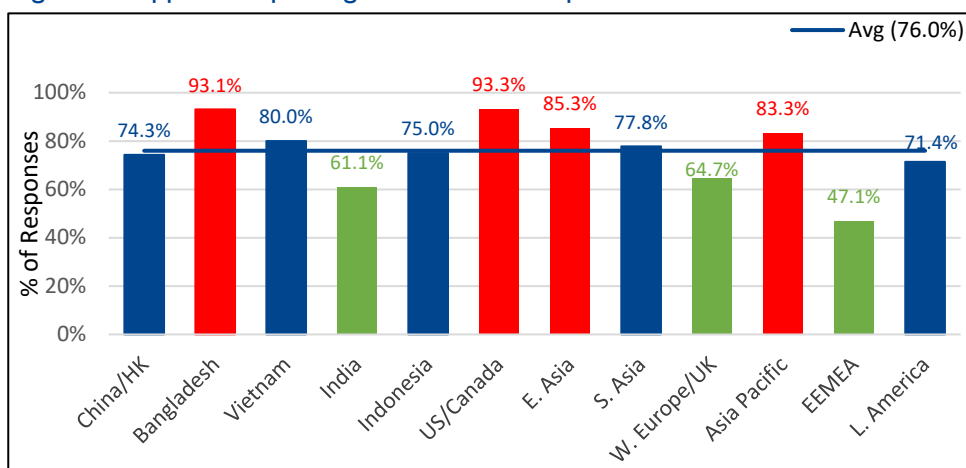
<sup>3</sup> The participating countries under each region are - East Asia: Cambodia, Korea Republic of (South Korea), Myanmar, Philippines, Singapore, Taiwan, Thailand; South Asia: Pakistan, Sri Lanka; Western Europe/UK: Belgium, Germany, Italy, Netherlands, Portugal, United Kingdom; Asia Pacific: Australia, Japan; EEMEA: Bulgaria, Egypt, Ethiopia, Jordan, Mauritius, South Africa, Turkey; Latin America: Argentina, Brazil, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru.

Figure 2. Suppliers Unable to Reach Shipping Port



Despite efforts to diversify production, for example the 22% of suppliers reporting they have extended their production to include face masks/personal protective equipment (see Figure A2), a second wave of the cash flow crisis relates to demand.

Figure 3. Suppliers Reporting Reductions in Expected Orders



The majority of suppliers indicated they are being impacted by a reduction in expected orders (see Figure 3). There are regional differences being reported, however, with many more suppliers in

US/Canada, Bangladesh, East Asia, and Asia Pacific more frequently reporting reductions in expected orders as compared with suppliers in EEMEA, India, and Western Europe/UK.<sup>4</sup>

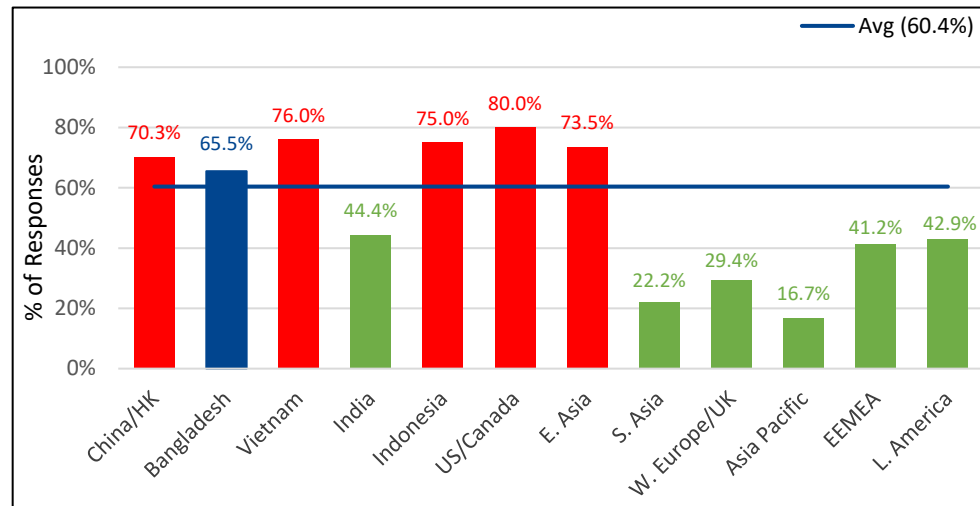
Furthermore, what one supplier referred to as “knee-jerk reactions” of customers with their purchasing practices over the last few weeks are intensifying cash flow challenges. Seventy percent of suppliers reported customers have canceled orders, with another 66% reporting volume of existing orders has been reduced (see Figure A3 in Appendix).

Sixty percent of suppliers are also reporting that customers are pushing back existing order shipping dates, although this differs regionally (see Figure 4). Pushing back shipping dates is reported more frequently by suppliers in US/Canada, Vietnam, Indonesia, East Asia and China/Hong Kong. This is less frequently reported by suppliers in Asia Pacific, South Asia, Western Europe/UK, EEMEA, Latin America, and India.<sup>5</sup>

<sup>4</sup> Pearson’s Chi-square=20.80, p=.036

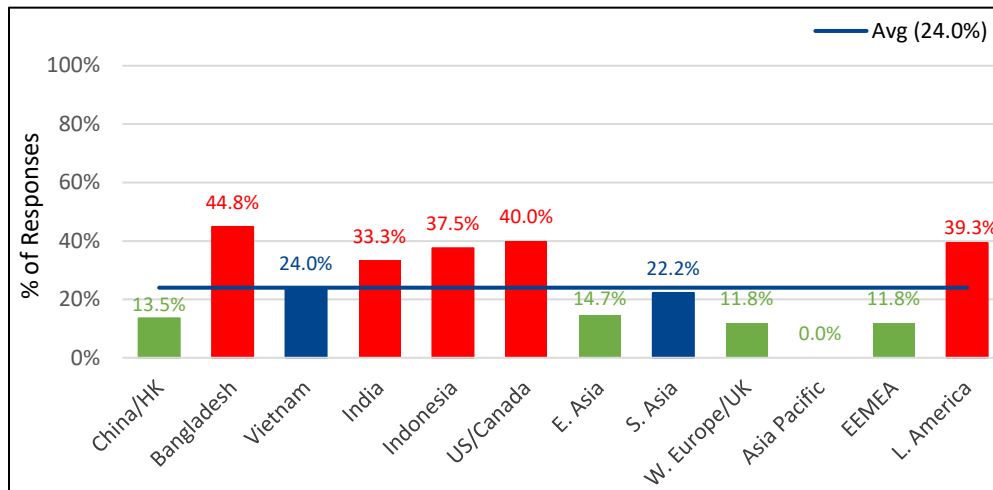
<sup>5</sup> Pearson’s Chi-square=37.42, p=.000

Figure 4. Suppliers Reporting Shipping Dates for Existing Orders Pushed Back



In addition to decisions affecting volume and timing of existing orders, 41% of suppliers are reporting that payment terms have been extended and 35% report an increasing number of late payments (see Figure A3 in Appendix).

Figure 5. Suppliers Reporting Inability to Pay Vendors



Not surprisingly, even at this relatively early point in the cash flow crisis, 24% of suppliers are reporting an inability to pay vendors. Regional differences in the inability to pay vendors suggest cash flow/liquidity

may be bigger problems in Bangladesh, US/Canada, Latin America, Indonesia, and India (see Figure 5).<sup>6</sup> Better Buying™ knows of Hong-Kong-based suppliers that are liquidating personal assets in order to satisfy accounts payable and to cover the wages of their factory workforce for several months. Some suppliers may not have the ability to do this, and buyers should collaborate on mutually beneficial solutions to ensure they have business partners to work with when this crisis is over.

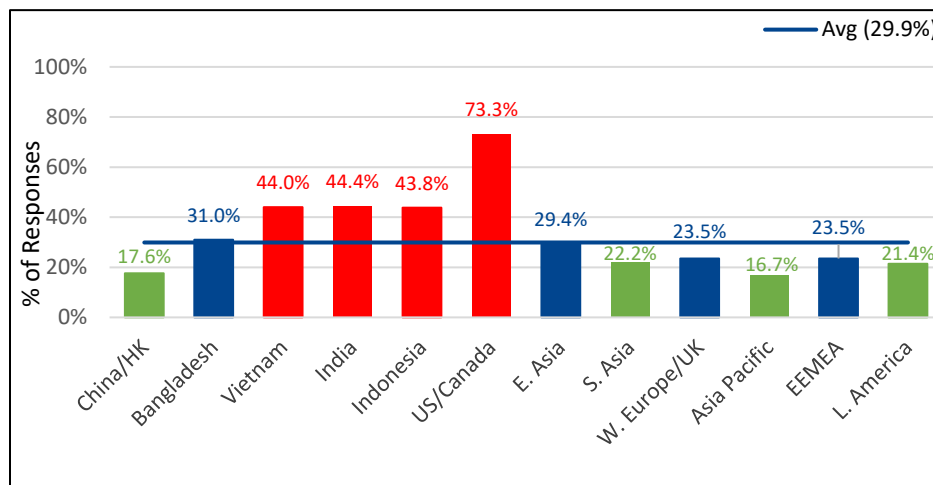
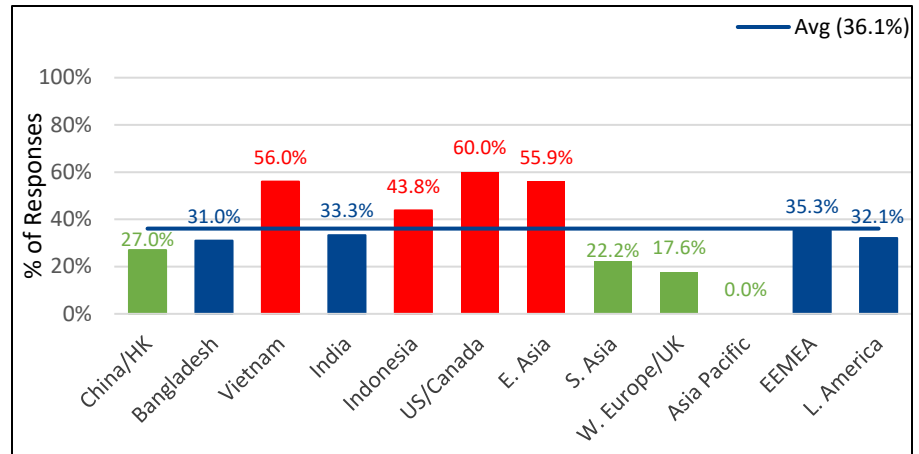
The cash flow crisis is having immediate damaging impacts on workers, which will compound to further limit the ability of suppliers to start production when business resumes. Thirty-six percent of suppliers

<sup>6</sup> Pearson's Chi-square= 25.85, p=.007



report they have already had to reduce hours for their workers, but this is happening much more frequently in the US/Canada, Vietnam, East Asia, and Indonesia (see Figure 6).<sup>7</sup>

**Figure 6. Suppliers Reporting Reduced Hours/ Underemployment of Workers**



Worker layoffs are also reported by 30% of suppliers, though this is a much more serious problem in US/Canada, India, Vietnam, and Indonesia (see Figure 7).<sup>8</sup>

**Figure 7. Suppliers Reporting Worker Layoffs**

### Best Practices

Best practices for how to address the immediate cash flow crisis have been reported by suppliers. These best practices include not canceling orders, collaborating to reduce negative impacts, rationalizing current assortments, providing full compensation or on-time/early payment despite orders being held or quantities being reduced, paying for fabric/raw material liability, and accepting shipping delays, among others less frequently reported (see Table A1 in Appendix). Keep in mind that what is a best practice for one supplier may not be viewed as such by all.

*“Some customers have tried to keep some orders even if they are stocking inventories as they also understand the issue of shocking the supply chain.”*

~ Supplier

Several suppliers reported best practices of buyers that are not canceling orders or are working with them on an agreeable period for order postponement in lieu of cancellation. As explained by one supplier, “some customer[s] are really concern of the situation and working very closely with

<sup>7</sup> Pearson’s Chi-square=24.05, p=.013

<sup>8</sup> Pearson’s Chi-square=26.94, p=.005

manufacturer in order not to cancel something which I already produced or already cut” with another expanding “They try to see the big picture and will drive this opportunity to push instead of cancelling orders.” Another supplier indicates the self-sacrifice of some buyers in working with them to prevent long-term supply chain damage, reporting that “Some customers have tried to keep some orders even if they are stocking inventories as they also understand the issue of shocking the supply chain.”

<b>Summary of Poor Practices and Best Practices Related to Short-Term Crisis Management: Supporting Supplier Cash Flow</b>	
<b>Current Impacts/Poor Practices</b>	<b>Best Practices</b>
<ul style="list-style-type: none"> <li>• Canceling orders</li> <li>• Extended payment terms</li> <li>• Increase in number of late payments</li> <li>• Reduction in expected orders and quantities</li> <li>• Inability to pay vendors</li> <li>• Reduced hours/underemployment</li> <li>• Worker layoffs</li> </ul>	<ul style="list-style-type: none"> <li>• Not canceling orders</li> <li>• Collaborating to reduce negative impacts</li> <li>• Rationalizing current assortments</li> <li>• Providing full compensation or on-time/early payment despite orders being held or quantities being reduced</li> <li>• Paying for fabric/raw material liability</li> <li>• Accepting shipping delays</li> </ul>

Furthermore, in lieu of outright cancelation, some buyers are carefully reviewing their orders and making rational choices about the product assortments needed now and using that to determine which styles can be brought in (perhaps with increased volume), and which styles should be canceled. In reporting this rationalization process, one supplier explained that their buyer “Not cancel the existing orders but just reschedule them with the later months to ship” while another described their buyer was “Reducing slow sale product but increasing others.”

To further provide support when orders are canceled or postponed, or forecasted volumes are changed, some buyers are taking liability for materials that have already been purchased and will be unused in the immediate future. For example, one supplier indicated that a buyer “provide the help to factory to reduce the loss and pay for the liability.”

Similarly, and in stark contrast to canceling orders to get out of paying for them, unilaterally extending payment terms, reducing payments or the price of goods, or paying late, there is evidence of some buyers providing full compensation despite order reduction and paying on-time or even early. For example, suppliers reported the following:

*“One customer is going to great lengths to help with the liquidity crisis of their suppliers, including early payment”*

*“Our core partners that are delaying the shipment of goods are offering to pay us a small deposit = 25-35% to help ease the cash flow crunch while we wait for them to advise revised shipment schedule”*

*“Agreeing to pay invoices for held garments Reducing quantities but paying full price to cover reduced quantities.”*

Several suppliers also acknowledged the important best practice some buyers implemented related to the first wave of the crisis by accepting shipping delays. For example, one reported that “Customers understand the situation and accept shipping dates delayed” while another explained that at the “start of

corona, when only China was effected, customers were very understanding of the delays due to the situation.”

## Recovery Phase: Anticipating Challenges Through Proactive Partnership

### General Problem

Companies that survive the immediate COVID-19 crisis will eventually enter into a recovery phase, which comes with its own set of challenges and opportunities. With buyers and suppliers reeling from the aforementioned impacts – not to mention the consequences of tens of thousands of furloughed employees, factory and retail store closures, and a plethora of broken contracts – we can expect an industry-wide scramble to recover some sense of normalcy. Take caution: when demand picks up and companies start placing production orders again, business as usual *will not be a viable strategy*. Adjustments will have to be made to day-to-day business practices, and a new normal will have to be realized to ensure buyers and their suppliers survive the recovery phase.

In addition to the best practices offered by suppliers in the survey that help address the immediate cash flow problems, drawing on its broader data collected about purchasing practices over the last several

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When demand picks up and companies start placing production orders again, business as usual *will not be a viable strategy*.

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years, Better Buying™ believes that suppliers will require new financial arrangements with their buyers as demand returns. Already, suppliers responding to our annual data collection with the Better Buying™ Purchasing Practices Index were reporting the need for shorter payment terms and alignment of

payment terms between first tier and second tier suppliers. Buyers need to prepare for a new reality where suppliers will not be extending credit as they have in the past in the form of long payment terms, but instead will require their buyers to take on a greater share of this financial burden.

The recovery phase will carry with it a major hurdle, described by Angela Chan of *Sourcing Journal* as a “bullwhip effect.”<sup>23</sup> Buyers that have taken advantage of every possible method to reduce their inventories during the initial crisis management will find themselves under intense pressure to quickly re-stock their stores once demand returns. The sharp increase in demand for production capacity, in addition to the sheer volume of goods that will need to be produced, will have far-reaching consequences for production planning and efficiency, product quality, and working conditions. Buyers need to ensure they have strategies in place to mitigate the associated risks and continue to support sustainable partnerships. This includes keeping human rights/labor compliance staff intact and supporting them in setting boundaries for purchasing that protect supplier businesses and their workers.

### Supporting Data

Beyond the immediate cash flow problems suppliers are experiencing, evidence suggests these will continue for several months and regions may be affected differently. Sixty percent of suppliers are reporting changes to forecasted volumes and 45% report changes in capacity reserved by their buyers (see Figures 8 and 9). Changes in both forecasted volumes and capacity reserved is more frequently reported by suppliers in Vietnam, East Asia, Indonesia, with several other regions reporting high rates of

changes to capacity reserved.<sup>9,10</sup> Assuming these are downward changes, suppliers will continue to face cash flow challenges for months to come. These and other regional differences reported here underscore the importance of all retailers and brands engaging with their own suppliers to understand their situation at this time of crisis.

Figure 8. Suppliers Reporting Changes to Forecasted Volumes

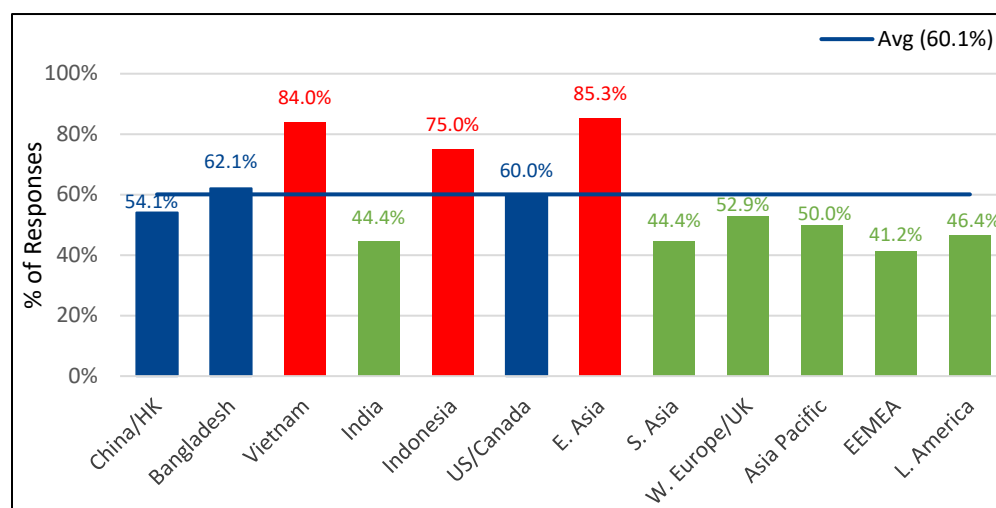
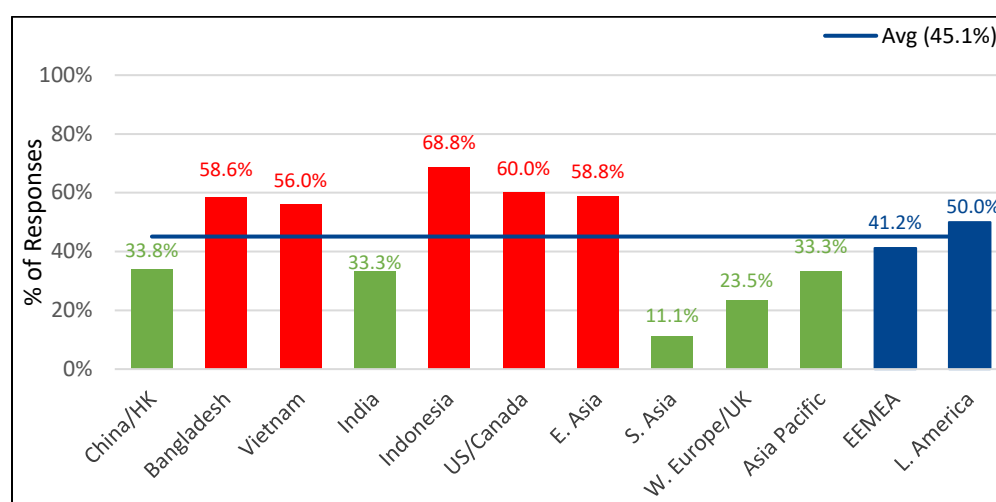


Figure 9. Suppliers Reporting Changes in Capacity Reserved



Following the initial crisis phase, many suppliers will require advance payments, cash on delivery, or letters of credit to begin producing orders again. Thus, retailers and brands are advised to secure their own cash flow situation through corporate bonds, loans, credit lines, or other formal finance mechanisms so they can satisfy their immediate accounts payable and prepare to pay for future orders.<sup>11</sup> Based on industry-

Following the initial crisis phase, many suppliers will require advance payments, cash on delivery, or letters of credit to begin producing orders again.

<sup>9</sup> Pearson's Chi-square=25.70, p=.007

<sup>10</sup> Pearson's Chi-square=23.82, p=.014

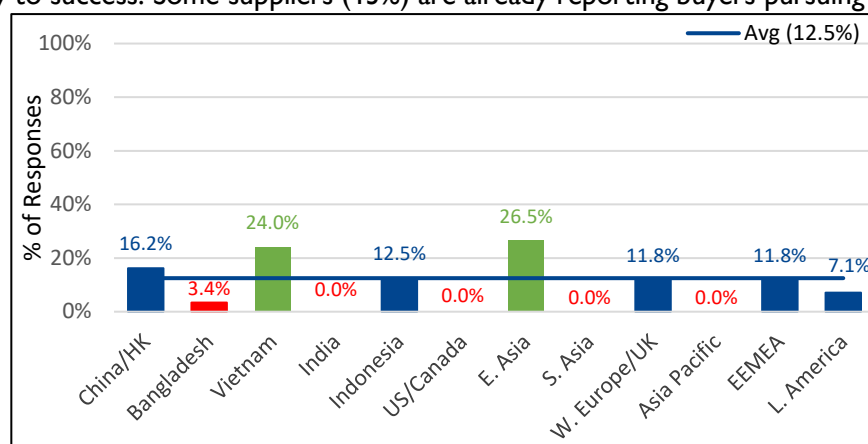
<sup>11</sup> The authors appreciate the corporate finance insights provided by Dr. Peter Cheng, Better Buying Institute board member and chairman of Hanbo Enterprises Holdings Limited.

wide findings from the forthcoming 2020 Better Buying™ Industry Trend Report, we know that 40% of suppliers already face payment terms of more than 60 days under normal business conditions. Brands and retailers cannot continue to use standard purchasing practices during the COVID-19 recovery phase that have made such a tremendous contribution to the current economic disaster playing out for suppliers and their workers. Many suppliers that survived the initial crisis will be unable to accept orders with pre-crisis payment terms, and others will be unwilling to do so.

The coming “bullwhip effect” cannot be underestimated.<sup>24</sup> Longstanding issues related to forecasting, reserving capacity, and providing regular forecast updates will become even more relevant when demand for production capacity surges. From the forthcoming 2020 Better Buying™ Industry Trend Report, we know that 17% of suppliers already lack visibility into the upcoming buying season and half receive late and last-minute forecasts (less than 90 days in advance of production) which leads to inefficient production and the potential for either increased overtime or underemployment due to idle lines. In the absence of appropriate proactive measures, we anticipate much worse performance on these factors when retail stores re-open and production resumes. In the midst of increased competition to secure capacity, cargo space and transportation options will likely be limited and shipping delays should be expected. Buyers need to work with their human rights/social compliance teams and act now to mitigate potential risks related to excessive overtime and unauthorized subcontracting (if subcontract facilities even survive the crisis) by reserving production capacity and working closely with suppliers to address any capacity limitations – buyer flexibility will be critical as the industry tries to get back on its feet.

Suppliers’ inability to pay their vendors will continue to be an issue during the recovery phase, meaning buyer management of nominated raw materials suppliers including alignment of lead times, deliveries, and payment terms will be key to success. Some suppliers (13%) are already reporting buyers pursuing increased partnership with raw materials suppliers, especially those in Vietnam and East Asia, as indicated by the green bars in Figure 10.<sup>12</sup>

Figure 10. Suppliers Reported Increased Support/Partnership with Raw Material Suppliers



With the onslaught of order cancelations and reduced order volumes, many suppliers have been left to bear substantial raw material liability on their own. Better Buying™ has heard several reports outside of the latest supplier survey about raw materials on hand that could be used immediately to get production going again – buyers should work directly with their suppliers to identify opportunities to jumpstart production and achieve the most efficient production timelines.

<sup>12</sup> Pearson’s Chi-square=19.81, p=.048

Current worker-related impacts will also lead to complications during the recovery phase. The underemployment, layoffs, and turnover suppliers are reporting now mean that without quick attention to ensuring supplier cash flow and retaining a core workforce, the needed workers to efficiently produce high quality goods will not be readily available when production resumes. Under normal circumstances, monthly order variability leads to reduced factory efficiency and productivity, increased worker and management stress, and increased operating costs. When production starts up again, buyers should anticipate that these impacts will intensify and put strategies in place so as not to underestimate the consequences for product quality, on-time delivery, and working conditions.

### *Best Practices*

Several best practices reported by suppliers will become particularly relevant once the industry enters the recovery phase. These include providing updated forecasts/plans, securing future production capacity, enhanced management of raw materials suppliers, accepting shipping delays, willingness to accept increased costs/alternative methods to ship goods, and implementing virtual technology to streamline communication/improve efficiency.

Summary of Poor Practices and Best Practices Related to Crisis Recovery	
Current Impacts/Poor Practices	Best Practices
<ul style="list-style-type: none"> <li>• Changes to forecasted volumes</li> <li>• Changes in capacity reserved</li> <li>• Inability to pay vendors</li> <li>• Reduced hours/underemployment</li> <li>• Worker layoffs</li> <li>• Worker turnover</li> <li>• Delays in receive tech packs/product specifications</li> </ul>	<ul style="list-style-type: none"> <li>• Providing updated forecasts/plans</li> <li>• Securing future production capacity</li> <li>• Enhanced management of raw materials suppliers</li> <li>• Accepting shipping delays</li> <li>• Willingness to accept increased costs/alternative methods to ship goods</li> <li>• Implementing virtual technology</li> </ul>

Multiple suppliers reported their buyers are already working closely with them to update production plans. One supplier reported their buyer “help us to make the plan in the next six months,” while another commented that their buyer is providing as much detail as possible “so we can plan some even thou it’s changeable.” There are two factors to consider here: first, forecasts for orders that have already been disrupted, or as one supplier explained, “Provide updated schedule for pushed back shipments”, and second, revised forecasts for the recovery phase as stated by another supplier: “Also giving us a clear forecast for after the crisis”.

While not a frequent mention in the survey, one supplier captured the need to be thinking about future production capacity by commenting “Secure production capacity for post-pandemic (Global sources might be restructured).” This type of forward-thinking needs to begin as early as possible to develop viable strategies for future orders.

Some buyers have already demonstrated increased management of raw materials suppliers, as indicated by these supplier comments: “luckily they help us to work with raw material supplier” and “The customer assists with supplier and follow-up delivery, to ensure the time of material arrival at the factory.” One company even heeded its supplier’s early warning signs at the beginning of the year: “We already explain during the end of December early January...the expected difficult period. They took

necessary steps in supply chain by booking more greige in advance resulting that we more or less do not face an impact.” This type of partnership will need to be widely adopted well into the recovery phase.

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*“We already explain during the end of December early January...the expected difficult period. They took necessary steps in supply chain by booking more greige in advance resulting that we more or less do not face an impact.”*

~ Supplier

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Shipping and transportation will require increased flexibility. Several suppliers reported their buyers have “accepted our shipment delay due to Impact of Coronavirus.” Often, buyers are even willing to make adjustments themselves: “Some will help to air bulk merchandises to final destinations at their cost,” and “change air shipment to be a sea shipment.”

COVID-19 has brought about unprecedented disruption to the way our industry operates. In reporting best practices, some suppliers referenced accelerated use of virtual technology in response to travel restrictions and shipping disruptions. While many of the purchasing practices seen today represent a stark departure from long-term (and arguably expensive and inefficient) practices, buyers should consider whether certain process improvements involving technology can be maintained going forward. For example, virtual fittings and approvals can speed up the design and development process and, as one supplier indicated, “accelerate technical key points confirmation,” while regular virtual meetings can “streamline communication” and address miscommunications in a timely manner. The recovery phase will be a prime time to implement any enhancements that can increase efficiency and remove bottlenecks in the production process.

Furthermore, suppliers reported transparent and constant communication as well as increased collaboration to manage negative impacts as best practices from the COVID-19 crisis. One supplier reported that their buyer is “keeping us in loop...they are in touch all the time,” while another lauded their buyer for “proactive, frequent and transparent communication.” Several suppliers indicated their buyers are willing to “discuss to find out the best way to solve the problem.” For example, suppliers reported the following.

*“Customer and us together work out s plan based on both sides’ status to go through this difficult time,”*

*“Collaboration has been excellent with all customers understanding constraints and vice-versa since the situation is impacting everybody,”*

*“Ask first to vendor for providing any sustainable recommendation for order reduction candidates based on current fabric/production status which are not incurring liability.”*

These practices are not merely best practices during crisis management or recovery mode, they are best practices *all the time*. These are key elements of long-term sustainable partnerships, and brands should seek to maintain these practices long after the effects of COVID-19 have passed.

## About Better Buying™

Better Buying™ is a global initiative that provides retailers, brands, and suppliers a cloud-based platform to obtain data-driven insights into purchasing activities. Better Buying’s transparency fosters sustainable

partnerships and mutually beneficial financial results and other outcomes. Anonymous supplier ratings of buyer purchasing practices obtained by the independent third-party initiative are aggregated, scored, and made available to the retailers, brands, and suppliers with the goal of accelerating change and industry-wide improvements across supply chains. Better Buying™ is a non-profit organization based in Delaware in the United States. For more information, visit: <https://betterbuying.org/>

## Appendix

Figure A1. Headquarter Countries of Participating Suppliers

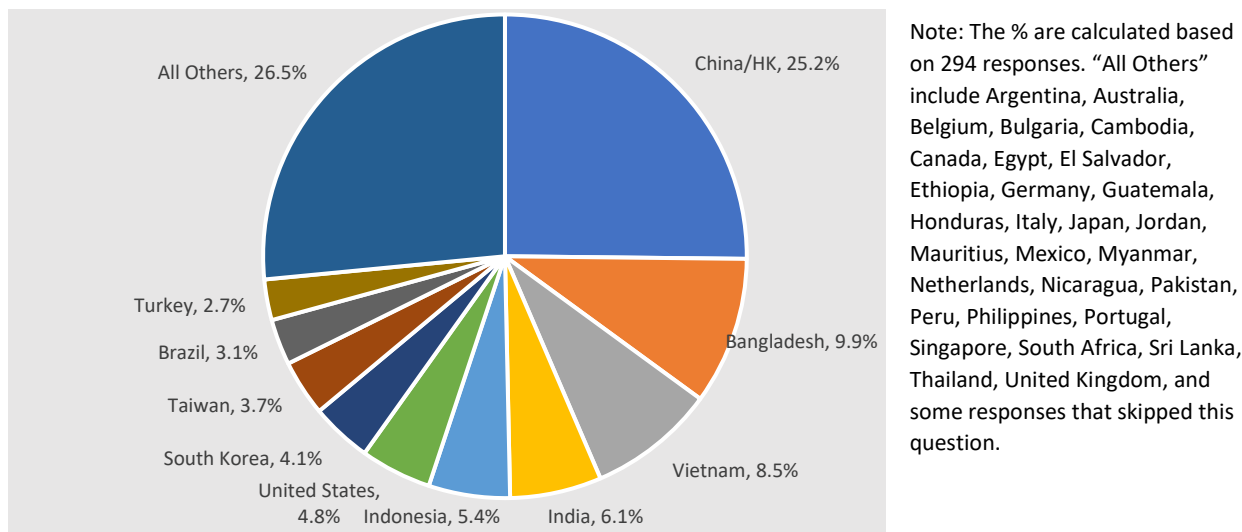


Figure A2. General Impacts of Coronavirus Reported by Suppliers

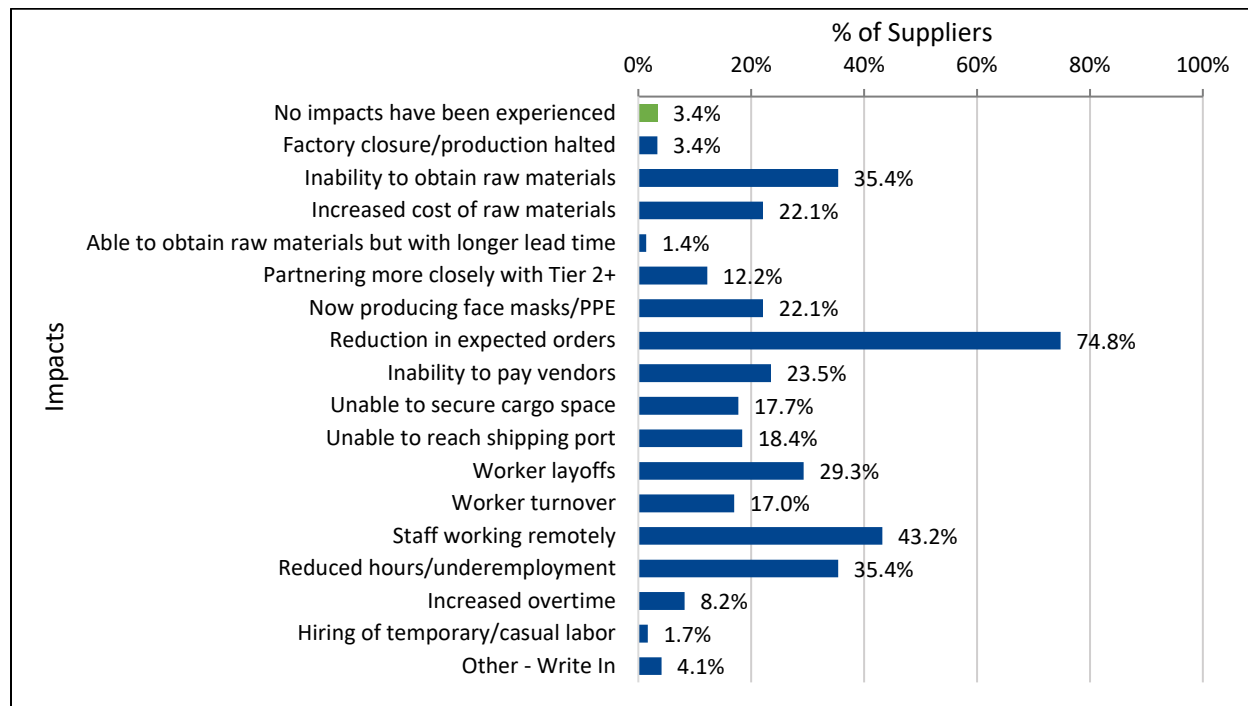




Figure A3. Impacts of Coronavirus-related Purchasing Practices on Suppliers

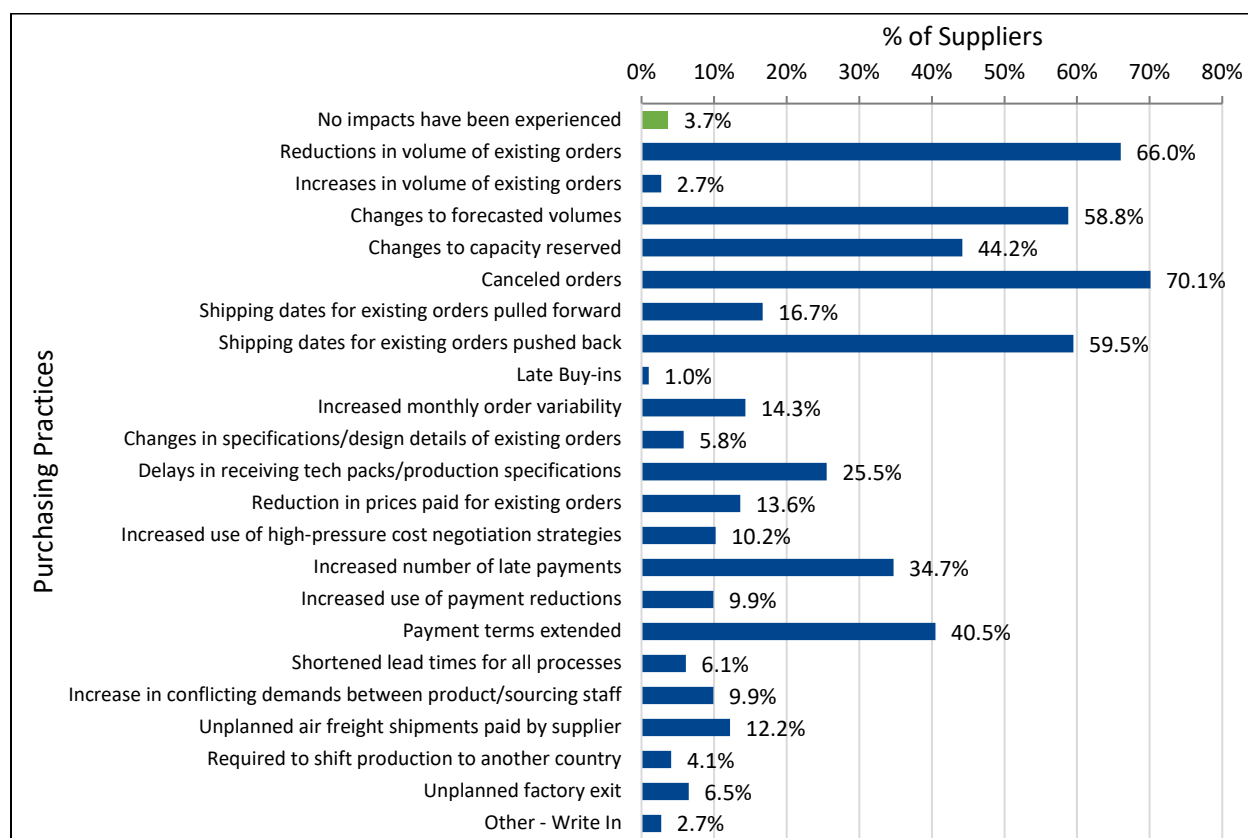


Table A1. Themes of Best Practices Reported by Suppliers

Theme	# of mentions	Sample Quote
<b>Transparent and Constant Communication:</b> Being in touch on a daily basis and discussing options with suppliers versus unilaterally making decisions.	25	They are in touch all the time.
<b>Not Canceling Orders:</b> Respecting contracts and avoiding supplier liabilities for raw materials already in place for production.	23	They try to see the big picture and will drive this opportunity to push instead of cancelling orders.
<b>Accepting Shipping Delays:</b> Due for example to raw materials delays, delays restarting production, delays in workers returning to factories.	23	Customers understand the situation and accept shipping dates delayed.
<b>Collaborating to Reduce Negative Impacts:</b> Engaging in discussion to identify mutually beneficial solutions.	18	They are trying to find a good solution working together.
<b>Paying for Fabric/Raw Material Liability:</b> Providing assurance that the company will pay for fabric or other raw materials that have already been	10	We have received a mail from the Head of Sourcing and Country manager, assuring that

procured, paying for fabric before garments are made.		even if reschedule or cancel any orders, they shall be liable for the committed raw materials. It gives supplier immense faith on the Brand!
<b>Providing Full Compensation or On-Time/Early Payment Despite Orders Being Held or Quantities Being Reduced:</b> Helping address supplier cash flow challenges and maintain business viability.	9	Agreeing to pay invoices for held garments. Reducing quantities but paying full price to cover reduced quantities.
<b>Enhanced Management of Raw Materials Suppliers:</b> Helping first-tier suppliers negotiate with raw materials suppliers for smooth deliveries and fair prices/payment terms.	7	Push supplier to ship the raw material by airfreight.
<b>Implementing virtual technology:</b> Utilizing technology to streamline communications and improve efficiency.	7	Accelerate technical key points confirmation
<b>Providing updated forecasts/plans:</b> Clearly explaining the impact on forecasted orders, providing revised forecasts for current and future orders.	7	Giving us a clear forecast for after the crisis Provide updated schedule for pushed back shipments
<b>Flexibility and Understanding:</b> Being supportive of suppliers and looking out for their welfare as well.	6	Customer cares about the factory like family.
<b>Willingness to Accept Increased Costs/Alternative Methods to Ship Goods:</b> Partnering with suppliers and sharing the burden of Coronavirus-related challenges	5	Some will help air bulk merchandise to final destinations at their cost.
<b>Rationalizing current assortments:</b> Making adjustments to current assortments in order to continue placing orders, aligning production with current changes in demand.	4	Reducing slow sale product but increasing others.
<b>Increasing Order Quantities:</b> Noted with some General Retail buyers that remain open for business.	3	[Two general retailers] didn't push back orders, and even increase the order volume.
<b>Securing Future Production Capacity:</b> Proactively making plans for when production can resume.	1	Secure production capacity for post- pandemic (Global supply sources might be restructured).
<b>Sharing Best Practices:</b> Providing insight and guidance to help suppliers weather the crisis.	1	Sharing best practices from Asian suppliers who just came through this.
<b>Shifting Manufacturing Capacity:</b> Begin producing equipment needed for workers on the front lines of the pandemic.	1	Invest the Mask machine with the customers to create new category production.

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