Better Buying™
Index Report, Fall 2018

Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains

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 participating retailers, brands, and suppliers with the goal of accelerating change and industry-wide improvements across supply chains. Co-founded by Marsha Dickson, Ph.D. and Doug Cahn, Better Buying™ was launched during an 18-month feasibility study funded by C&A Foundation in 2015 and is currently a project of the University of Delaware. For more information, visit: **www.betterbuying.org**.

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Suggested citation: Dickson, Marsha A. (2018). Better Buying™ Purchasing Practices Index Report Fall 2018: Purchasing Practices Performance in Apparel, Footwear, and Household Textile Supply Chains. Available at **www.betterbuying.org**.

ACKNOWLEDGEMENTS

Better Buying™ appreciates the support of its primary funder, C&A Foundation, and secondary funder, Humanity United.

The opinions expressed are those of Better Buying™ and do not necessarily reflect the views of its funders.

Contents

1. Introduction

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.[1]

Spring 2018 marked the launch of the Better Buying™ Purchasing Practices Index (BBPPI). The BBPPI uses data submitted anonymously by suppliers based on their business experiences with specific customers to measure the performance of retailers and brands within the apparel, footwear, and household textiles industries against seven categories of purchasing practices. Regularly updated ratings are aggregated, scored, and made available to the retailers and brands being rated and the suppliers that rated them, providing up-to-date information about purchasing practices and how they are changing over time.

This report summarizes the results and key findings from the Q2 2018 ratings cycle of BBPPI data collection carried out between May-August 2018. The report reveals differences in results compared with the previous ratings cycle and explores the reasons behind these differences. It also shares findings from a new set of questions and identifies further opportunities for buyers to improve their performance. The data collection methodology and participation information can be found in the Appendix of this report.

The buying companies that engaged with Better Buying™ during this ratings cycle are acknowledged in the report and are being provided with individualized company reports. The reports include a summary of their performance against the industry benchmark and recommendations for improvements in better supporting their suppliers and the stability of their supply chains. From these actionable insights, retailers and brands can work to streamline their operations, create stronger partnerships with suppliers, and monitor their efforts over time. Similarly, suppliers can better evaluate current and potential customers and business partners, and understand how to allocate resources more efficiently. Suppliers that rate their customers help provide retailers and brands with critical information needed to drive purchasing practices over time.

The BBPPI is the first in a suite of Better Buying™ indices that provides performance data and statistics measuring the performance of buyer companies on a range of business practices that impact their financial, environmental, and social sustainability performance, as well as the performance of their business partners. Better Buying™ is currently focused on relationships between retailers and brands and their first-tier suppliers, but it is expected that over time this will expand deeper into supply chains and across multiple sectors, such as toys, electronics, and food and beverage.

INTRODUCTION

[1] Better Buying™ provides the opportunity for suppliers - as opposed to factories - to rate their customers because information pertaining to purchasing practices is most often held in the corporate supplier office that has direct contact with the buying company, and not at the factory level. A supplier, therefore, is defined as a parent company that owns one or more facilities or places orders in independently owned and operated factories on behalf of their clients (buyers from brands, retailers, agents and design houses). It is understood that a factory may also be a supplier if it has direct contact with the buyer's product creation teams and no other corporate office intervenes in the factory-buyer relationship. Buyers are referred to as retailers and brands throughout this report due to the heavy prevalence of ratings of those types of businesses.

2. Scores and Ratings

Table 1 outlines the scores of the 363 submitted ratings from the Q2 2018 ratings cycle. Color coding has been used to differentiate between best scores of 4 to 5 stars (green), mid-range scores of 2 to 3.5 stars (blue), and poor scores of 1.5 stars or less (purple). It is important to note that the industry benchmark does not represent a standard of good performance, it simply indicates average industry performance during this ratings cycle.

In Q2 of 2018, the average Better Buying™ score for all retailers and brands was 2 stars out of 5, but the scores assigned to individual companies varied widely, ranging from a low of 0 stars to a high of 5 stars (see Table 1). The best performing category was in Management of the Purchasing Process (4.5 stars), while the worst performing category was in Sourcing and Order Placement (0.5 stars).

The categories of Management of the Purchasing Process and Sourcing and Order Placement improved by a full star and half a star respectively compared to the previous ratings cycle. Planning and Forecasting and Design and Development remain unchanged. In contrast, Payment and Terms dropped by two and a half stars while Cost and Cost Negotiation and Win-Win Sustainable Partnership (formerly titled CSR Harmonization) both dropped one star. And the overall Better Buying™ score dropped by half a star.

Although scores have changed it is unlikely that, in the short six months since the last ratings cycle, performance in purchasing practices have changed as buyers are only just beginning to develop and implement strategies for improvement (refer to case studies).

It is more likely that changes in scores can be attributed to two factors:

1. The type of buyer and number of times they were rated. The majority of ratings this cycle were attributed to 20 buyer companies and the benchmark reflect this. It is expected that with an increase in the number of participating buyers, the findings will reflect purchasing practices across the broader apparel, footwear, and household textiles industries, rather than just a discrete set of companies.

2. Adjustments to questions and scoring in this ratings cycle have revealed further supplier pain paints.

BETTER BUYING SCORE	INDUSTRY BENCHMARK, FIRST RATINGS CYCLE (N=218)	INDUSTRY BENCHMARK, Q2 2018 (N=363)
Overall	★★½	★★
Planning and Forecasting	★½	★½
Design and Development	★★½	★★½
Cost and Cost Negotiation	★★★½	★★½
Sourcing and Order Placement	☆	½
Payment and Terms	★★★★½	★★
Management of the Purchasing Process	★★★½	★★★★½
Win-Win Sustainable Partnership (formerly CSR Harmonization)	★★★½	★★½

Table 1. Overall Better Buying™ and purchasing practices category scores (0 to 5 stars)

3. Key Findings

KEY FINDINGS

In this section, we analyze the information captured by the BBPPI. This ratings cycle covers four thematic areas:

1. Financial pressures experienced by suppliers
2. Opportunities for increased operational efficiency
3. Regional differences in forecasting and ordering
4. Pursuing a win-win sustainable partnership

FINANCIAL PRESSURES EXPERIENCED BY SUPPLIERS

Retailers and brands are increasingly concerned about the impact of their purchasing practices on suppliers' ability to provide decent working conditions and improve their environmental performance. Suppliers agree with those concerns, yet often raise counter concerns about the financial pressures they are experiencing from their customers. In a recent presentation at Hong Kong Fashion Week 2018, Dr. Delman Lee, President and Chief Technology Officer for TAL Apparel Limited, pointed to the urgent need to "get the third 'P' right" in the People, Planet, and Profit equation, since financial sustainability is a fundamental requirement for all business activities.

RETAILER/BRAND CASE STUDY

After receiving a detailed analytical report from Better Buying™ comparing the brand's purchasing practices category scores with the overall Better Buying™ score, the company went to work. To begin, the ethical trading staff distributed the findings to director level executives and began planning a series of workshops for the merchandising, design, buying, and quality assurance teams. The workshops were used to create a broad awareness of areas for improvement and establish clear priorities. The product creation teams and senior management were already familiar with Better Buying™ and were prepared to receive the scores.

The workshops began with a review of the relevant findings from the report. Each participant was then asked to identify ideas for improvement, as well as barriers to change with a view to focusing on everyday purchasing practices that can impact the lives of workers. Nine areas of focus were addressed frequently across the workshops. From those areas, four were selected as priorities based on an anonymized prioritization process. The findings together with the four focus areas for improvement will be the subject of a CEO briefing this fall and subsequent roll-out of implementation plans. Q2/Q3 2019 orders are being confirmed now and so the results of process improvements undertaken this fall and beyond are expected to be felt by suppliers and reflected in future ratings cycles.

Financial pressures experienced by suppliers were made evident through the BBPPI's Cost and Cost Negotiation, Payment and Terms, Planning and Forecasting, and Management of the Purchasing Process categories.

Retailers and brands scored an average of 2.5 stars in the Cost and Cost Negotiation category, down a star from the previous ratings cycle. Over 20% of suppliers indicated that fewer than 80% of the orders received from retailers or brands were priced to cover the cost of social, environmental, quality, and other compliance requirements.

A question asking whether the buyer used negotiation strategies that resulted in high pressure on the supplier's business was included for the first time in the Q2 2018 ratings cycle. The data shows that 55.4% of suppliers had been affected by high-pressure cost negotiation strategies (see Table 2 for more detail on the strategies used).

COST NEGOTIATION STRATEGIES	FREQUENCY (N=363)	%
Demanding level prices be maintained from year to year, no consideration for inflation	113	31.1
Take it or leave it—meet the target cost or supplier cannot win the order	95	26.2
Comparing suppliers only on price instead of a full range of attributes	83	22.9
Sharing competitor bids/pressure to match other competitors across different countries	72	19.8
Asking for price commitments based on a larger volume than actual quantity ordered	68	18.7
Demanding across the board price cuts from previous orders/years	59	16.3
Allowing only very short times for response to price demands	56	15.4
Constantly calling/emailing, asking for lower price, multiple rounds of negotiation, or other fatigue producing tactics	52	14.3
Requiring supplier to meet specific elements of other suppliers' cost structure	48	13.2
Threatening to move production of existing programs/cut orders in the future	48	13.2
Making changes to product specifications after FOB (free on board) price is locked	43	11.8
Continuing to negotiate prices after bulk production has started	26	7.2
Making changes to terms (e.g., payment, ship dates, quantities, factories) after issuing PO (purchase order)	21	5.8
Using an online bidding strategy versus a "partnership" negotiation strategy	19	5.2
Using threatening language or negotiating in an angry tone	3	0.8
Other	17	4.7
No costing negotiation strategies that resulted in high pressure on business	162	44.6

Table 2. Cost negotiation strategies resulting in high pressure on suppliers
Note. Suppliers could select more than one choice, so the frequency does not add to 363.

KEY FINDINGS

The results show a direct correlation between the use of negotiation strategies and prices covering compliant production. Specifically, as the number of pressure-producing strategies used by retailers and brands increased, the percentage of products priced to cover compliant production decreased.[2]

This important finding highlights an urgent need for retailers and brands to ensure their negotiation processes promote fair and sustainable partnerships.

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In contrast to the first ratings cycle, the Payment and Terms category dropped to 2 stars in Q2 2018. The lower score is partially attributed to a new set of questions that provides a more accurate picture of the payment practices employed by retailers and brands, and more suppliers indicating that their customers do not pay on time.

PERCENT OF SAMPLE INVOICES PAID ON TIME	FREQUENCY (N=363)	%
90-100%	99	27.3%
70-89%	20	5.5
50-69%	9	2.5
49% or less	12	3.3
Buyer did not pay for samples	223	61.4

Table 3. On time payment of sample invoices

For the first time, suppliers were asked whether their customers paid for samples and data indicated that the majority (61.4%) did not. This is especially concerning because the number of samples can run into the thousands and producing those can carry costs 10 times more than the FOB (free on board). Thus, sampling costs quickly add up and contribute to complex financial pressures placed on suppliers.

Moreover, while some brands and retailers agreed to pay for samples, suppliers indicated that they were often late in paying the invoices. Table 3 shows the distribution of on-time payment of sample invoices and the meagre 27.3% of retailers and brands that paid for samples and did so on time.

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RETAILER/BRAND CASE STUDY

The analysis that Better Buying™ provides is beneficial to the evaluation and evolution of our purchasing practices. The survey tool and data provides a good barometer and valuable insight into which purchasing practices are working well and which may benefit from efforts to improve. This process is a vital component that impacts how we deliver on our social sustainability goals. We have used the survey questions to review our own supplier survey and are in the process of considering how our internal process and Better Buying's external process can complement one another to help drive improvements. We are looking forward to leveraging the insights to better educate our internal teams on the impacts of their buying decisions. — Buying Company Representative

[2] Tested statistically with Person's correlation (r) with p-values .05 or less indicating statistically significant relationships. Statistics for this test: r=-.124, p=.018.

Equally noteworthy in Payment and Terms is the fact that only 64.5% of retailers and brands paid bulk order invoices on time (see Table 4). Those paying late averaged a 21.93 day delay, though some paid 100 days late.

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In its analysis of individual companies, Better Buying™ is identifying the buyers where on-time payment is an issue.

For a notable 27.3% of suppliers, their customers did not pay the full price as indicated in the PO (purchase order). Moreover, nearly 10% of suppliers indicated that fewer than 20% of their customers' POs were paid in full. Suppliers indicated the most common reason for orders not paid in full was late or unsubstantiated claims of quality defects (see Table 5). 'Other', reasons included being required to contribute to the opening of a new store, remodeling an existing store, or launching a new brand.

PERCENT OF BULK PRODUCTION INVOICES PAID ON TIME	FREQUENCY (N=363)	%
100%	234	64.5
90-99%	61	16.8
80-89%	27	7.4
70-79%	7	1.9
60-69%	4	1.1
50-59%	5	1.4
40-49%	2	0.6
30-39%	-	-
20-29%	-	-
Less than 20%	4	1.1
Payment terms were not defined in the bulk purchase order/other agreements	19	5.2

Table 4. On-time payment of bulk production invoices

REASONS FOR REDUCED PAYMENTS	FREQUENCY (N=129)	%
Late or unsubstantiated claims of quality defects	46	12.7%
Unsubstantiated claims about shipping	16	4.4
Unsubstantiated claims about packing	16	4.4
Poor sales	12	3.3
Arbitrary administrative procedures (e.g., claims of incorrect shipping information, wrong procedures of submitting documents/invoice)	8	2.2
Drop in prices of raw materials	7	1.9
Currency fluctuations that disadvantage the buyer	6	1.7
Automatic reductions for claims that have not been agreed by supplier	6	1.7
Unsubstantiated claims of noncompliance	5	1.4
Other	26	7.2

Table 5. Reasons given to avoid full payment

Note. Suppliers could select more than one choice, so the frequency does not add to 129.

ADVANCE PAYMENTS/FAVORABLE TERMS	FREQUENCY (N=363)	%
Buyer issued letters of credit for volume orders	38	10.5
Buyer paid for sampling costs at or before shipment	17	4.7
Buyer paid deposits on volume orders	12	3.3
Buyer paid for volume orders in full on or before shipment	11	3.0
Other beneficial terms	33	9.1
Buyer did not provide advance payment/ favorable terms	266	73.3

Table 6. Advance payments/favorable terms offered by buyers

UNUTILIZED CAPACITY	FREQUENCY (N=363)	%
No unutilized capacity	231	63.6
Buyer paid for the unutilized capacity	1	0.3
Capacity was unused	49	13.5
Supplier had to accept last-minute, low-price orders to fill capacity	33	9.1
Other	49	13.5

Table 7. Handling of unutilized capacity

EXCESS MATERIALS	FREQUENCY (N=363)	%
No excess materials	272	74.9%
Buyer paid for excess materials	14	3.9
Buyer asked supplier to hold materials for use in buyer's future orders	46	12.7
Buyer took no responsibility for excess materials	19	5.2
Other	12	3.3

Table 8. Handling of excess materials

Suppliers were required to answer a question about favorable terms and advance payment practices (this was an optional question in the previous ratings cycle). Over 73% of suppliers indicated that their customers did not provide advance payments/favorable terms (see Table 6). It is not possible to determine whether buyer goodwill or a low credit rating attributed to the 10.5% of rated retailers and brands that issued letters of credit for volume orders.

In Planning and Forecasting, questions about the outcome of discrepancies between capacity booked and actual orders received were introduced in this ratings cycle. Over 36% of suppliers indicated that these discrepancies resulted in unutilized capacity. In only one case did the buyer pay for the unutilized capacity. The general consensus from suppliers was that unutilized capacity leads to greater pressure on business operations and increased financial pressure (see Table 7).

Additionally, for over 25% of suppliers the discrepancies between capacity booked and actual orders received meant they were left with an excess of materials, which they were frequently asked by their customers to hold for future orders (Table 8).

In Management of the Purchasing Process, suppliers also raised concerns about the lack of relationship management by retailers and brands when nominating third party suppliers for materials and services, which can lead to more expensive prices for first-party suppliers and delays in production. A little over 80% of suppliers indicated that buyers had nominated preferred suppliers for materials and services, but almost a quarter of those did not properly manage those relationships.

OPPORTUNITIES FOR INCREASED OPERATIONAL EFFICIENCY

Improved operational efficiency by retailers and brands can alleviate some of the financial pressures their suppliers face. It is commonly thought that long-term business between suppliers and buyers will lead to better relationships and improved efficiency. But this assumption has not been reflected in the BBPPI results for this or the previous ratings cycle. In fact, results from both ratings cycles show that long-term relationships had no effect on purchasing practices. Rather, they remained the same throughout the span of the business partnership.[3]

Questions under the Design and Development and Management of the Purchasing Process categories shed light on opportunities for improving operational efficiency.

Design and Development received an average score of 2.5 out of 5 stars, remaining unchanged from the previous ratings cycle, with scores ranging from 0 to 5 stars. The rate of adoption (hit rate) was 39% or less for nearly three out of 10 suppliers, and just 4.7% indicated the customer adopted 100% of the styles developed. These figures indicate that there is little return on investment for suppliers when it comes to the design and development stage of bulk orders. The low adoption rate may be due to two reasons:

1. Brands and retailers taking samples developed by one supplier to lower-cost suppliers to be produced
2. Oversampling or in other words experimenting with designs with little intention of ordering them

Operational efficiency is further compromised by retailers and brands issuing inaccurate or incomplete tech packs and the findings reveal that this is an area for improvement. Just 42.9% of suppliers indicated that their customers had issued 90-100% of their tech packs accurately. Another 41.1% indicated tech packs were accurate 70-89% of the time. Inaccurate or incomplete tech packs leads to more work for both suppliers and buyers and an opportunity to improve operational efficiency.

Similar to findings from the first ratings cycle, scores in Design and Development varied according to the region where the supplier was headquartered. Suppliers based in EEMEA (Eastern Europe/Central and Western Asia, Middle East, Africa) reported the worst experience with their customers in Design and Development (1.5 stars); China/Hong Kong, US/Canada, and Western Europe/UK also suffered from lower retailer and brand performance on Design and Development (2 stars) compared with suppliers based in East Asia (3 stars).[4]

Further insights about operational efficiency can be taken from the Management of the Purchasing Process category. Scores increased by one full star from the previous ratings cycle to 4.5 stars in Q2 2018.

Most suppliers indicated that a time-and-action calendar (TNA) was in place to bring products to market. Nine out of every 10 suppliers reported that their customers provided enough time for production in their TNA/contractual terms. However, if key milestones in the TNA were not met, time for production can quickly be eroded.

In the Q2 2018 ratings cycle, suppliers were asked: For which of the following key milestones/actions did the buyer miss the deadline during the last six months? Approximately half of ratings indicated that buyers adhered to critical TNA deadlines. However, for the other half, they missed an average of 3.6 different key

[3] Pearson's correlation: r=.023, p=.668 [4] Analysis of variance, F=2.86, p=.01.

milestones (range from 1 to 15 missed deadlines). See Table 9 for further information about deadlines missed. Figure 1 shows that deadlines were most frequently missed in the Pre-production stage.

Unsurprisingly, work completed to deadline is paramount for operational efficiency within supply chains. Therefore, it is recommended that retailers and brands track TNA milestones, and where problems exist in meeting those, analyze and address the cause. Suppliers in this ratings cycle have also suggested that regular collaboration and updates between suppliers and buyers can resolve any issues that arise throughout the various production stages and can alleviate unnecessary financial and resource strain.

MISSED DEADLINES OF KEY MILESTONES	FREQUENCY (N=363)	%
No deadlines were missed	183	50.4
Pre-production Stage		
Hand-off of detailed style information for design proto samples (e.g. initial tech pack or detailed sketch and material descriptions)	47	12.9
Ordering proto sample materials	24	6.6
Comments on fit/proto samples	76	20.9
Trims and artwork sample approvals	53	14.6
Lab dips/color sample approvals	53	14.6
Wash/finishing sample approvals	20	5.5
Style consolidation and release of salesman sample order	13	3.6
Ordering salesman sample materials	14	3.9
Salesman sample approvals	5	1.4
Quality testing approvals (development test – fabric, material, garment, etc.)	18	5.0
Order confirmation stage		
Bulk order confirmation	39	10.7
Bulk order quantity forecast	33	9.1
Hand-off of tech pack for bulk production	27	7.4
Release of purchase order	44	12.1
Production stage		
Ordering bulk production materials	14	3.9
Ordering/technical details for packaging (e.g., labels, hangtags, instructions) for bulk production	20	5.5
Fit sample approvals	39	10.7
Approval of materials	29	8.0
Approval of size set	15	4.1
Final pre-production sample sign-off	14	3.9
Post-production stage		
Quality testing approvals (production test – fabric, material, garment, etc.)	13	3.6
Top of production sample approvals	14	3.9
Final inspection approval	10	2.8
Shipping sign-off	5	1.4

Table 9. Missed deadlines of key milestones

Note. Suppliers could select more than one choice, so the frequency does not add to 363.

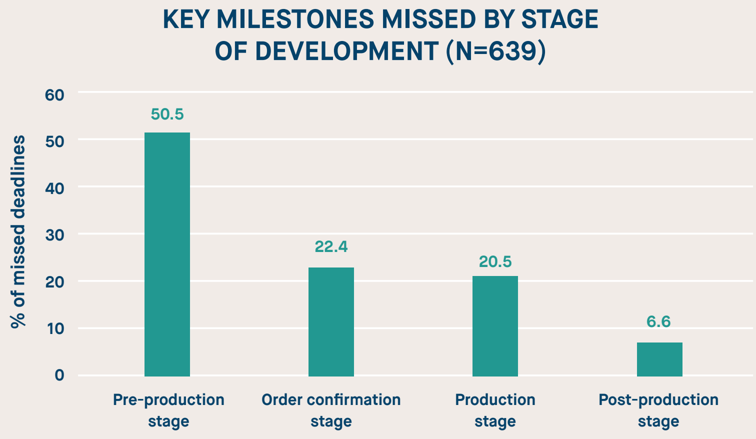

Figure 1. Key milestones missed by stage of development

PERCENT OF ACCURATE PURCHASE ORDERS FOR BULK PRODUCTION	FREQUENCY (N=363)	%
90-100%	277	76.3
70-89%	60	16.5
50-69%	19	5.2
49% or less	7	1.9

Table 10. Purchase order accuracy

New data under Sourcing and Order Placement also suggests opportunities for improved operational efficiency. In response to a new question that asked what percent of the buyer's POs for bulk production were accurate, ratings indicated that retailers and brands were generally performing well in this area. Although 23.6% of suppliers indicated that fewer than 90% of their POs were accurate (see Table 10).

Production is delayed when a PO differs from the verbal and email commitments made by retailers and brands due to the extra time needed to revise, review, and reconfirm the PO.

REGIONAL DIFFERENCES IN FORECASTING AND ORDERING

Planning and Forecasting and Sourcing and Order Placement categories captured data relate to suppliers ability to properly allocate human resources, develop accurate costs, and deliver goods on time, tasks which are heavily dependent on retailers and brands accurately forecasting and the way orders are spread throughout the year.

Regional differences in Planning and Forecasting

The average score for Planning and Forecasting remained steady at 1.5 stars, with scores ranging from 0 to 5 stars. Regional differences in critical purchasing practices observed in the first ratings cycle were found again in Q2 2018. Retailers and brands headquartered in Europe/United Kingdom received 1 star for Planning and Forecasting compared with the 2 stars received by retailers and brands headquartered in North America. Retailers and brands headquartered in Europe/United Kingdom and North America are listed in Table 11.

Regional differences in critical purchasing practices observed in the first ratings cycle were found again in Q2 2018.

EUROPE/UNITED KINGDOM (N=194)		NORTH AMERICA (N=137)
adidas Sourcing Ltd.	Mammut Sports Group AG	Columbia Sportswear Company
Aldi (Nord)	Marks and Spencer Plc	Destination Maternity Corporation
Bestseller A/S	Masai Clothing Company ApS	Eileen Fisher Inc.
Bonmarché Ltd.	Monoprix Exploitation	Gap Inc.
Champion Europe SRL	N Brown Group	J. Crew Group Inc.
Charles Tyrwhitt Shirts Ltd.	No Ordinary Designer Label Ltd.	Levi Strauss & Co.
Debenhams Retail Plc	O'Neill Europe BV	Mountain Equipment Co-op
Esprit	Peak Performance	New Balance Athletics, Inc.
Fashion Pool GmbH	Peek & Cloppenburg KG	Nike Inc.
Frankonia Handels GmbH & CO. KG	Rapha Racing Ltd.	Nordstrom, Inc.
G-Star Raw C.V.	Reiss Ltd.	Outerstuff LLC
Gueldenpfennig GmbH	Rohan Designs Ltd.	Reformation
Hakro GmbH	Schijvens Confectiefabriek Hilvarenbeek B.V.	Sugartown Worldwide LLC
Helly Hansen AS	SDV	Target Corporation
Hema	Seasalt Ltd.	The Cato Corporation
Hennes & Mauritz (H&M)	The Edinburgh Woollen Mill Ltd.	The Talbots Inc.
Hobbs Ltd.	The White Company (UK) Ltd.	Tommy Bahama Group, Inc.
House of Fraser (Stores) Ltd.	Uber A/S	Vetta Brands
Inditex	Visage Ltd.	
JP Boden & Co Ltd.	W. L. Gore & Associates GmbH	
Karen Millen Fashions Ltd.	We Europe BV	
Knits Only	Whistles Ltd.	
Lidl	White Stuff	

Table 11. Retailers and brands by headquarters region

What accounts for these differences? First, retailers and brands from Europe/UK (78.4%) were less likely to provide suppliers with forecasts or other insight into upcoming buying plans than retailers and brands in North America (91.2%). Moreover, retailers and brands from Europe/UK provided forecasts later than their North American counterparts.

Nearly 37% of North American buyers provided forecasts 120 days or more in advance of order placement, compared to just 17% of Europe/UK buyers. The percentage of retailers and brands that provided forecasts only 29 days (or fewer) ahead of order placement was much larger for retailers and brands in Europe/UK (11.9%) than in North America (6.6%, see Table 12).

FORECASTS GIVEN IN ADVANCE OF ORDER PLACEMENT	EUROPE/UK		NORTH AMERICA	
	FREQUENCY (N=194)	%	FREQUENCY (N=137)	%
180 days or more	6	3.1	24	17.5
150-179 days	12	6.2	10	7.3
120-149 days	15	7.7	16	11.7
90-119 days	28	14.4	16	11.7
60-89 days	25	12.9	23	16.8
30-59 days	43	22.2	27	19.7
29 days or less	23	11.9	9	6.6
No forecast provided	42	21.6	12	8.8

Table 12. Regional differences in timing of forecast

North American retailers and brands (62.8%) more frequently updated their forecasts, compared with Europe/UK retailers and brands (47.4%) and also scored better in terms of booking capacity ahead of production (North American = 93.4%, Europe/UK = 85.6%). Notably, North American retailers and brands had more accurate forecasts with 69.3% of POs within +/- 30% of capacity booked, compared with just 57.2% of Europe/UK retailers and brands having this level of accuracy (see Figure 2).

The Q2 2018 survey also asked suppliers if they believed that their customers viewed and treated them as business partners. North American retailers and brands received a more favorable response with 80.3% viewed as partners, compared with 71.1% of retailers and brands from Europe/UK. Better Buying™ intends to investigate what constitutes a 'good partner' as defined by suppliers.

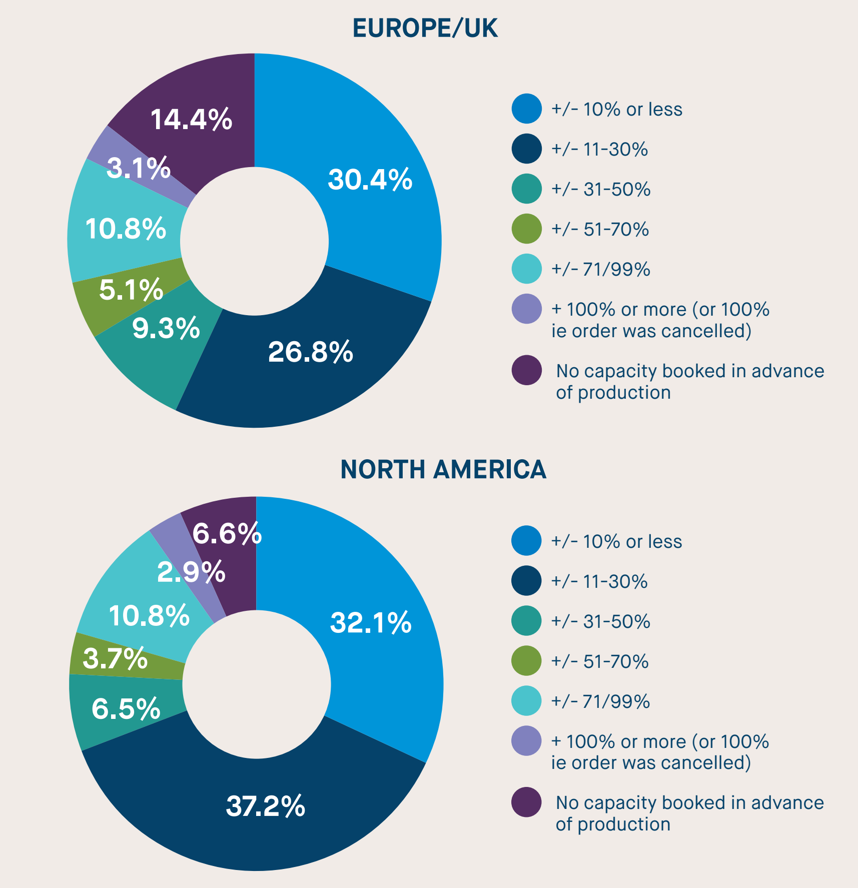

Figure 2. Accuracy of forecasting by region

Regional differences in Sourcing and Order Placement
Sourcing and Order Placement remained the worst performing category across the board, with an average score of 0.5 stars. Again, scores differed according to the location of buyer headquarters, with North American retailers and brands having better scores than retailers and brands in Europe/UK. [5]

Order risk-to-reward (ORR) compares the consistency of month-to-month orders. It is the percentage of risk (measured by order volatility) to reward (measured by average orders) over a period of time. The ORR in this ratings cycle was 73.2% and scores ranged from 0 to 245%.

There were, once again, regional differences in ORR. Buyers headquartered in North America had much more consistent month-to-month ordering (ORR=58.0%) than retailers and brands headquartered in Europe/UK (ORR=89.37%). [6]

From the data, we are able to draw the conclusion that the purchasing practices of North American retailers and brands in the Planning and Forecasting category are far better compared to Europe/UK retailers, corresponding to more consistent month-to-month production for suppliers.

Increased visibility, accurate forecasts, and evenly distributed orders throughout the year enable suppliers to allocate human resources supporting compliance with labor laws and codes of conduct, ultimately decreasing the risks for their customers.

PURSUING A WIN-WIN SUSTAINABLE PARTNERSHIP

Previously labeled CSR Harmonization, the category has been renamed to Win-Win Sustainable Partnership for the Q2 2018 ratings cycle. Supplier feedback from the first ratings cycle showed high performance of retailers and brands in this category. This was determined to be misleading because retailers and brands that had no set requirements for workplace conditions were scored highly, a practice at odds with good purchasing practices.

A new question in the category asked whether the buyer set minimum expectations of CSR/compliance requirements for production of its orders; the findings indicated that 9.1% of retailers and brands did not (see Table 13). This poses a high risk for retailers, brands, suppliers, and the workers that make our clothes and should be addressed immediately with a robust due diligence program, such as that outlined in the Office of Economic Cooperation and Development's *Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector*. [7] These retailers and brands can also refer to the common industry practices, as observed by the BBPPI (see Table 13).

The average score for this category dropped by 1 star in Q2 2018 (average = 2.5 stars, range = 0 to 5). A new threshold question meant that some retailers and brands earned a score of 0.

WAYS CSR/COMPLIANCE EXPECTATIONS ARE ENFORCED	FREQUENCY (N=363)	%
Buyer does not enforce its expectations	17	4.7
Codes of conduct	241	66.4
Contractual terms	119	32.8
Factory self-assessments	177	48.8
Factory audits	275	75.8
Corrective action plans	217	59.8
Other	3	0.8
Buyer does not set minimum expectations for CSR/compliance	33	9.1

Table 13. Ways CSR/compliance is enforced

[5] Analysis of Variance, F=3.664, p=.013 [6] Analysis of Variance, F=12.504, p=.000 [7] OECD (2018), OECD Due Diligence Guidance for Responsible Supply Chains in the Garment and Footwear Sector, OECD Publishing, Paris, https://doi.org/10.1787/9789264290587-en.

5. Conclusions and Recommendations

While adjustments to the BBPPI presented a few challenges in directly comparing the first and second ratings cycle, the new questions presented to suppliers have been paramount in providing additional insights. Based on the findings from the Q2 2018 BBPPI ratings cycle, Better Buying™ extends three overarching conclusions and subsequent recommendations.

CONCLUSION	RECOMMENDATION
1. Retailers and brands must stop focusing on reducing costs without considering the implications on suppliers. Increased financial pressure on suppliers raises the risk of business failure, supply disruption, and environmental and human catastrophe. It is impossible to make tangible improvements to things like living wages and working conditions if retailers and brands do not ease the financial pressure placed on suppliers.	• Stakeholders pursuing wage increases for workers in global supply chains should request that retailers and brands share their Better Buying™ reports and create improvement plans to demonstrate shared responsibility with suppliers for wage increases. For retailers and brands not yet engaged with Better Buying™, stakeholders should encourage engagement so that the company's performance can be independently verified against the industry benchmark. • Suppliers facing operational difficulties should proactively communicate their experiences with customers through Better Buying's™ anonymous ratings platform.
CONCLUSION	**RECOMMENDATION**
2. Regional differences require further investigation and collaborative action. Results from the BBPPI demonstrate vast regional differences, and a greater breadth of retailer and brand participation would help in understanding those differences.	• To increase understanding and explore opportunities for collaborative sharing and problem-solving among industry groups, more retailers and brands from Europe/United Kingdom and North America should engage with Better Buying™. Through the BBPPI they can: garner insights into their own performance, best practices and those that need improvement; and contribute to the increasing knowledge of challenging business models. Large companies with diverse business models are especially encouraged to engage.
CONCLUSION	**RECOMMENDATION**
3. The BBPPI is a valuable tool for optimizing business performance and reducing supply chain risks. Through the aggregated analysis of ratings submitted by suppliers, and the individual company reports featuring statistics and performance data provided to retailers and brands. Better Buying™ can be used to increase business efficiency and profitability, reduce risks, enhance environmental performance, and improve workplace conditions throughout supply chains.	• Retailer, brand, and supplier participation with Better Buying™ continues to expand, but more retailers and brands need to provide their supplier lists and invitation letters. More suppliers need to rate their customers. Together, we can work for win-win buyer-supplier relationships. • Buyers are encouraged to give detailed feedback about how they are using Better Buying's™ information to improve. • Likewise, suppliers are invited to give feedback about the improvements they are seeing in their customers purchasing practices.

Changes to supply chain practices will take time. With the use of the BBPPI, Better Buying™ hopes to spur a 'race to the top' among retailers and brands eager to increase operational efficiency, protect their reputations and profits, and avoid lost sales. Buyers and suppliers will therefore be able to maintain operational and financial stability while meeting quality, environmental, and workplace standards.

Better Buying™ is Better Business, Better Environmental Performance, and Better Workplace Conditions.

Appendix: Methodology

Readers may wish to consult the Better Buying™ Index Report Spring 2018 for details about how the BBPPI was created and how the seven categories of purchasing practices are measured:[8]

1. Planning and Forecasting
2. Design and Development
3. Cost and Cost Negotiation
4. Sourcing and Order Placement
5. Payment and Terms
6. Management of the Purchasing Process
7. Win-Win Sustainable Partnership (formerly CSR Harmonization)

The BBPPI is unique because it is supplier-centric and focuses on empowering and amplifying their voices in support of improved purchasing practices and, therefore, improved financial, social, and environmental performance. Suppliers volunteer to submit ratings of their customers (i.e., retailers and brands) either as an initiative they take on themselves, or at the invitation of buyers that have engaged with Better Buying™.

Suppliers register on the Better Buying™ platform by creating a basic profile and assigning the individuals that will input data. Ratings for each retailer and brand are created separately. The supplier chooses to 'create a new rating', selects the company they are rating, and uploads a document to demonstrate a business relationship within the last six months. They are then asked to complete a questionnaire specific to their business relationships with that buyer. Suppliers are encouraged to rate as many of their customers as possible. The proprietary scoring system is built into the data platform and upon submitting the rating suppliers can instantly see the star ratings earned by their customer.

Prior to analyzing supplier data, Better Buying™ carries out a data verification and cleaning process; proof of business relationship documents are reviewed and the plausibility of data is checked. After verification, Better Buying™ downloads all approved ratings submitted during a ratings cycle and carries out additional analysis of the aggregated data.

At the completion of a ratings cycle, data are analyzed and aggregated by Better Buying and suppliers receive the scorecard of each company they rated. Scorecards can be used by suppliers for benchmarking purchasing practices, and for the development of supplier business strategy and business planning in the future.

ABOUT BETTER BUYING™ DATA COLLECTION

As well as approaching suppliers directly to solicit participation, 20 retailers and brands took leadership roles in the Q2 2018 ratings cycle (highlighted in bold in Table A1) by providing their full (or partial) supplier lists and supplier participation invitations. Better Buying™ used the information and invitation letter to contact suppliers and urged them to take the opportunity to give honest and anonymous feedback. Response rates averaged 34.43%, with a range of responses from 8.33% to 80.23%. Several retailers and brands were encouraged to participate thanks to multi-stakeholder initiatives with an increasing commitment to responsible purchasing practices.

PARTICIPATION IN Q2 2018 RATINGS CYCLE

A total of 432 ratings were submitted in the Q2 2018 cycle of BBPPI data collection.

Of those, 15 ratings (the majority of which were duplicates) were rejected during the data verification and cleaning phase. An additional 54 ratings of retailers and brands whose largest orders had been products other than apparel, footwear, or household textiles were also omitted. The ratings were withheld from this benchmark report because they are out of scope, but they have been analyzed separately and made available to the companies rated.

In total, 363 verified ratings were used in this benchmark report.

[8] https://betterbuying.org/wp-content/uploads/2018/05/4159_better_buying_report_final.pdf

What retailers and brands were rated?
A total of 67 retailers and brands were rated (see Table A1). Each was classified into one of four buyer types according to information from *Standard & Poor's NetAdvantage Database*, which uses Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS) to categorize companies for investment research. Three classifications are taken from the *NetAdvantage Database*, while 'General Retail' has been developed by Better Buying™ to correctly capture another group of retailers. The four buyer types include:

- **Apparel, Accessories, & Luxury Goods:** buying companies that develop, source, and then wholesale their products to retailers, but may also have direct retail sales. Companies in this category may also own manufacturing facilities.
- **Apparel Retail**: buying companies that sell products they source and develop primarily through their own stores.
- **Department Stores:** buying companies that sell multiple brands in their retail stores, and who may also develop and source private label products.
- **General Retail:** buying companies that sell multiple brands in their stores and may also develop private label products. These retailers stock food, general merchandise, housewares, and other categories making them distinct from apparel retail and department stores.

(Opposite page)
Table A1. Retailers and brands rated during Q2 2018 by buyer type

Note. 'N' refers to the number of ratings submitted. Companies in bold font engaged with Better Buying™ to invite suppliers to participate. '' refers to retailers and brands that engaged with Better Buying™ but did not receive minimum number of ratings to receive an individual report.*

APPAREL, ACCESSORIES AND LUXURY GOODS (N=163)	**APPAREL RETAIL** (N=111)	**DEPARTMENT STORES** (N=5)	**GENERAL RETAIL** (N=84)
adidas Sourcing Ltd.	**Bonmarché Ltd.**	Debenhams Retail Plc	Aldi (Nord)
Bestseller A/S	Charles Tyrwhitt Shirts Ltd.	House of Fraser (Stores) Ltd.	Hema
Celio Sourcing Ltd.	Destination Maternity Corporation	Marks and Spencer Plc	**Kmart Australia Ltd.**
Champion Europe SRL	Esprit	Nordstrom, Inc.	Lidl
Columbia Sportswear Company	**Frankonia Handels GmbH & CO. KG**		Monoprix Exploitation
Eileen Fisher Inc.	Gap Inc.		**Target Corporation**
Fashion Pool GmbH	Gueldenpfennig GmbH		**The White Company (UK) Ltd.**
G-Star Raw C.V.	Hennes & Mauritz (H&M)		
Hakro GmbH	Hobbs Ltd.		
Helly Hansen AS	Inditex		
Karen Millen Fashions Ltd.	J. Crew Group Inc.		
Knits Only	**JP Boden & Co Ltd.**		
Levi Strauss & Co.	**N Brown Group***		
Mammut Sports Group AG	Peek & Cloppenburg KG		
Masai Clothing Company ApS	Sportsgirl		
Mountain Equipment Co-op	The Cato Corporation		
New Balance Athletics, Inc.	The Edinburgh Woollen Mill Ltd.		
Nike Inc.	The Talbots Inc.		
No Ordinary Designer Label Ltd.	**We Europe BV**		
O'Neill Europe BV	**White Stuff**		
Outerstuff LLC			
Peak Performance			
Rapha Racing Ltd.			
Reformation*			
Reiss Ltd.			
Rohan Designs Ltd.			
Schijvens Confectiefabriek Hilvarenbeek B.V.			
SDV			
Seasalt Ltd.			
Sugartown Worldwide LLC			
Tommy Bahama Group, Inc.			
Uber A/S			
Vetta Brands			
Visage Ltd.			
W. L. Gore & Associates GmbH			
Whistles Ltd.*			

In the Q2 2018 ratings cycle, 20 retailers and brands engaged directly with Better Buying™ to invite supplier participation, compared to just eight in the first ratings cycle. Subsequently, a larger percentage of ratings from the Q2 2018 ratings cycle were the result of buyer invitation (see Figure A1). It is positive that retailers and brands increasingly want to learn about, and improve their purchasing practices. Additionally, we continue to directly encourage suppliers to voluntarily submit ratings of all their customers so that the benchmark is reflective of a broad range of retailers and brands in the apparel, footwear, and household textiles industries.

The majority of ratings submitted in Q2 2018 were of retailers and brands headquartered in Europe/ United Kingdom, compared to an even distribution with the North America region in the previous ratings cycle (see Table A2).

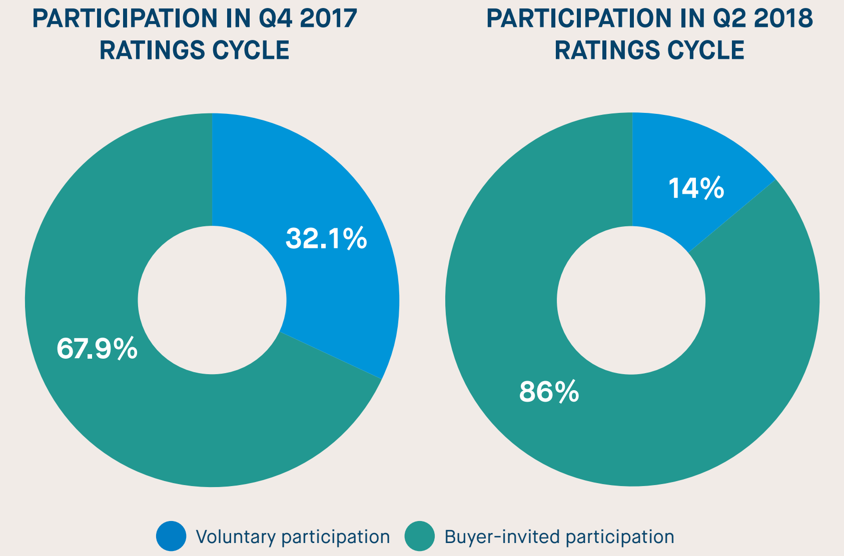

Figure A1. Comparison of invited participation for two ratings cycles

REGION AND COUNTRY	FREQUENCY (N=67)	%
Asia Pacific	2	3.0
Australia	2	3.0
South Asia	1	1.5
Bangladesh	1	1.5
North America	18	26.9
Canada	1	1.5
United States	17	25.4
Europe/UK	46	68.7
Denmark	2	3.0
France	1	1.5
Germany	10	14.9
Italy	1	1.5
Netherlands	6	9.0
Norway	2	3.0
Poland	1	1.5
Spain	1	1.5
Sweden	2	3.0
Switzerland	1	1.5
United Kingdom	19	28.4

Table A2. Location of rated retailers and brands

Note. To determine the location of buying companies, Better Buying uses information provided by suppliers and adjusts it to harmonize findings across multiple ratings.

About the suppliers who submitted ratings

Better Buying™ protects the anonymity of suppliers by withholding the raw data and identities of those who submit ratings. The ratings submitted by 319 suppliers across 38 countries were grouped into regions, analyzed, and included in this benchmark report (see Table A3). Supplier participation increased by 104.5% from the first ratings cycle (156 from 24 countries).

Over 81% of suppliers were factory owners that collectively employ nearly 1.8 million workers in their 895 factories (average number of factories owned = 3.5, range = 1 to 29). The average number of customers was 25.3. On average, suppliers had been in a business relationship with the retailers and brands they rated for 9.4 years, with the range from one to 46 years.

REGION AND COUNTRY	FREQUENCY (N=67)	%
Asia Pacific	2	0.6
Australia	1	0.3
Japan	1	0.3
China/Hong Kong	115	36.1
China	65	20.4
Hong Kong	50	15.7
East Asia	51	15.9
Cambodia	2	0.6
Indonesia	2	0.6
Korea, Republic of (South Korea)	15	4.7
Malaysia	3	0.9
Philippines	1	0.3
Singapore	3	0.9
Taiwan	16	5.0
Thailand	2	0.6
Vietnam	7	2.2
South Asia	76	23.8
Bangladesh	37	11.6
India	29	9.1
Pakistan	6	1.9
Sri Lanka	4	1.3
EEMEA (Eastern Europe/ Central and Western Asia, Middle East, Africa)	13	4.1
Israel	1	0.3
Mauritius	1	0.3
Tunisia	2	0.6
Turkey	8	2.5
United Arab Emirates	1	0.3
Latin America	5	1.6
El Salvador	1	0.3
Guatemala	1	0.3
Mexico	1	0.3
Peru	1	0.3
Puerto Rico	1	0.3
US/Canada	18	5.6
Canada	2	0.6
United States	16	5.0
Western Europe/UK	39	12.2
Belgium	1	0.3
Denmark	4	1.3
Italy	3	0.9
Netherlands	8	2.5
Portugal	7	2.2
Romania	2	0.6
Spain	1	0.3
Switzerland	1	0.3
United Kingdom	12	3.8

Table A3. Location of supplier headquarters

HOW THE DATA ARE ANALYZED AND STARS AWARDED

Better Buying™ uses a 0 to 100-point scoring system to calculate category and overall scores. A star 'grading' is applied to the scores as follows (see Table A4).

Better Buying™ awards scores using a 0 to 5-star rating system with 0 indicating the worst performance and 5 indicating the best.

Better Buying™ uses the weighting system outlined below to determine the weight of each purchasing practices category to the overall score (see Figure A2).

Basic descriptive statistical analysis is carried out for each question. Means (M) for the purchasing practices categories are based on a scale from 0 to 100, and smaller means reflect poorer purchasing practices while larger means reflect better purchasing practices. Standard deviation (SD) reflects the variability of scores around the mean and gives an indication of the spread of buyer responses to a question or rating category. A larger SD indicates a wider range of responses and scores.

Analysis of variance (ANOVA) was used to test for characteristic differences of the retailers and brands rated and suppliers submitting ratings, and correlation analysis examined the relationship between measures.

NUMERICAL SCORE	STARS AWARDED
96-100 points	★★★★★
90-95 points	★★★★½
84-89 points	★★★★
78-83 points	★★★½
72-77 points	★★★
66-71 points	★★½
60-65 points	★★
54-59 points	★½
46-53 points	★
37-45 points	½
36 or fewer points	☆

Table A4. Stars and corresponding numerical scores

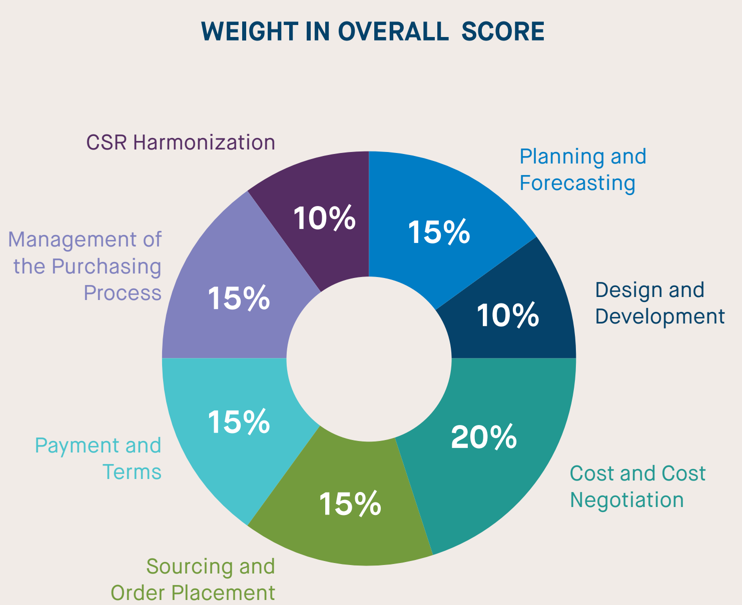

Figure A2. Weight of seven categories of purchasing practices to the overall Better Buying™ score