



Better Buying

Index Report Spring 2018

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



ABOUT BETTER BUYING

Better Buying is an initiative that supports industry-wide transformation of buyer purchasing practices to ensure business relationships allow buyers and suppliers to achieve their financial, environmental, and social sustainability goals. Anonymous supplier ratings of buyer purchasing practices are aggregated, scored, and made available to the buyers and suppliers. Ratings are updated every six months and eventually made public along with buyer comments, and examples of best and improving practices. Detailed analytic reports, along with key recommendations, are made available to buyers who have been rated a minimum of five times. 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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Executive Summary

In recent years, purchasing practices and their impact on suppliers' ability to provide decent working conditions have come under increasing scrutiny worldwide. In recognition of the need for buyers such as brands and retailers to improve purchasing practices, Better Buying has been created to support the transformation of buyer-supplier relationships so that all parties can achieve their financial, social, and environmental sustainability goals.

Better Buying has now launched a first-of-its-kind index – Better Buying Purchasing Practices Index (BBPPI) – using data submitted anonymously by suppliers through its online platform to rate the purchasing practices of buyers against seven key categories:

1. **Planning and Forecasting:** measures the extent to which buyers include suppliers in production plans, as well as the accuracy of planned orders compared with orders actually placed.
2. **Design and Development:** measures the delay or inaccuracy of technical and production details provided by buyers to suppliers. This category also covers the frequency to which suppliers receive orders for products they develop.
3. **Cost and Cost Negotiation:** measures if suppliers are given enough funds to meet buyer expectations, including production costs and compensation for suppliers to meet buyer codes of conduct and legal requirements.

4. **Sourcing and Order Placement:** measures if buyers are rewarded for compliance with their codes of conduct and month-to-month order fluctuation.
5. **Payment and Terms:** measures if suppliers are paid on time and at the price agreed in the original contract.
6. **Management of the Purchasing Process:** measures the amount of time offered to the supplier for the development and production phases in which buyers are required to complete key actions outlined in a Time and Action Calendar.

7. **CSR Harmonization:** measures the internal alignment of buyer companies on corporate social compliance goals and their contribution to reducing industry-wide audit duplication.

This report summarizes the results and key findings from the first cycle of BBPPI data collection carried out in Q4 2017. It includes ratings from 156 suppliers across 24 countries and measures the performance of 65 buyers within the apparel, footwear, and household textiles industries globally.

Buyers have been awarded scores using a 0 to 5-star rating system.

BETTER BUYING SCORE	AVERAGE OF ALL SUBMITTED RATINGS (N=218)
Overall	★ ★ ★
Planning and Forecasting	★ ★
Design and Development	★ ★ ★
Cost and Cost Negotiation	★ ★ ★ ★
Sourcing and Order Placement	★
Payment and Terms	★ ★ ★ ★ ★
Management of the Purchasing Process	★ ★ ★ ★
CSR Harmonization	★ ★ ★ ★

The scores reveal that while buyers are performing well in some areas, improvements are needed in others. The average overall score for buyers in this cycle was 2.5 stars. The best performing category was Payment and Terms with 4.5 stars, while the worst performing category was Sourcing and Order Placement which received an average of 0 stars.

In addition to presenting the overall Better Buying scores, the report delves into the complexities of buyer-supplier relationships (page 14 onwards) across each category by taking into account a number of factors such as geographic location and Buyer Type.

The BBPPI provides an internationally recognized framework for measuring purchasing practices, as well as an action agenda to promote labor standards and sustainable purchasing practices within supply chains globally.

The recommendations of this report are therefore divided into three parts: first to reveal best and worst practices and to emphasize the need for an internationally recognized index such as the BBPPI, second to highlight the importance of stakeholder engagement with the index, and third to identify opportunities for buyers to improve their ratings.

1. Current business practices are unsustainable and in order to facilitate sustainable supply chains, buyers must begin to:

- Improve the predictability and consistency of their business with suppliers.
- Offer and maintain enough time for production.
- Eliminate financial tactics that erode suppliers' abilities to cover the costs of business.
- Support and incentivize sustainable business operations.

2. Industry-wide transformation of buyer purchasing practices demands leadership:

- While the BBPPI has created an opportunity for suppliers to communicate their experiences, more buyers are needed to engage with the process by inviting their suppliers to participate in upcoming rating cycles, so they can better understand their purchasing practices and identify areas of focus for improvement.
- Department stores especially are encouraged to engage with Better Buying so that the BBPPI can reflect the experiences of a more representative group of suppliers.
- Suppliers should submit ratings rather than waiting for invitations from their buyers. By increasing the amount of ratings, Better Buying can improve accuracy, identify more trends, and provide a knowledge base from which improvements can be made.

- Multi-stakeholder initiatives whose members have made commitments to responsible purchasing practices and improving workplace conditions can use the BBPPI to measure their performance across the seven categories of purchasing practices.
- 3. The BBPPI is a practical tool for improvement and will spur a 'race to the top' across all categories of buyers:**
- All apparel, footwear, and household textiles buyers can now use the BBPPI to review their own practices and begin to change their day-to-day practices, so that performance in purchasing practices improves over time.
 - Buyers from under-represented types such as General Retail and Department Stores, and their peers within these types, such as footwear or active wear buyers, should engage with Better Buying to gain actionable information as a basis for making their categories stand out for best (rather than worst) practices.

1. Introduction

Buyers, such as international brands and retailers, are increasingly concerned about the impact of their purchasing practices on suppliers' ability to provide decent working conditions. Large and unpredictable order requests with tight timelines at the lowest possible cost are known to place significant hardships on suppliers, often resulting in substandard factory environmental and workplace performance. Poor practices can also prevent suppliers from running sustainable businesses and pose potential risks in supply chains. Therefore, improved purchasing practices not only have a positive impact on the workplace, but they also support buyers' financial performance and help to maintain stable and responsive supply chains.

Better Buying is an independent, third-party initiative with a mission to transform relationships between the suppliers responsible for manufacturing products and the companies that buy them, so that all parties can achieve their financial, environmental, and social sustainability goals. Better Buying provides clear and relevant information, feedback, and analysis to buyers about their purchasing practices with the broader goal of accelerating improvements in supply chains globally.¹

The first ever Better Buying Purchasing Practices Index (BBPPI) measures the performance of 65 buyer companies within the apparel, footwear, and household textiles industries against seven categories of purchasing practices. The BBPPI uses data submitted anonymously by suppliers based on their business experiences with specific customers.

All ratings are aggregated, turned into scores, and subsequently made available to the buyers being rated and the suppliers that submitted the ratings. Ratings are regularly updated by suppliers and are eventually made public together with comments from buyers about examples of best practice and steps taken to improve their practices. Suppliers, buyers, and

other key stakeholders get up-to-date information about purchasing practices and how they are changing—hopefully for the better—over time.

This report summarises the results and key findings from the first cycle of BBPPI data collection carried out in Q4 2017. It identifies best practices in purchasing and supply chain processes and highlights those purchasing practices in need of improvement. It is intended to broaden stakeholder understanding of the most challenging day-to-day business practices faced by suppliers working with buyer companies to bring products to market. The findings gathered can be used by:

- Professionals in corporate social responsibility and labor compliance to identify how their own businesses are contributing to human rights violations.
- Industry professionals focused on business operations and profitability to manage their businesses more efficiently and profitably.
- Investors, financial institutions, insurers, and auditors who can use the findings to assess potential supply chain risks, not only reputational but material risks associated with supply disruption.

Regular cycles of data collection and

reporting will allow stakeholders to track improvements in purchasing practices over time.

The BBPPI is the first in a growing 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 goals, as well as the goals of their business partners. A second tool will be released soon. Over time, Better Buying expects to expand its work deeper into supply chains and across multiple sectors, such as toys, electronics, and food and beverages.

An independent external evaluation of Better Buying's work by Keystone Accountability stated:

“Better Buying could become the keystone species that supports an entire ecosystem of actors working together to improve buyer practices. Its ratings could become the informational basis that is the flywheel that drives the entire buyer practices improvement machine.”

¹ Better Buying provides the opportunity for suppliers - as opposed to factories - to rate their buyer. Information pertaining to purchasing practices is most often held in the corporate supplier office in direct contact with the buyer, and not at 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, the brands and retailers. 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 buyer-supplier relationship.

2. Methodology

HOW WAS BBPPI CREATED?

Better Buying identified the purchasing practices that matter most to suppliers. After initial desktop research, additional data was sourced from:

- Field research of critical buying practices in Hong Kong, China, Bangladesh, Cambodia, and Vietnam.
- Input from additional stakeholders through 40+ formal consultations.
- Supplier survey results which determined the availability of information and their willingness to rate.
- A pilot study testing the ability to receive supplier ratings and the value of the results for distinguishing good and bad performance.

A short and concise list of questions was then drafted to address the suppliers' most important concerns.

The question and response categories were designed to be objective and draw on business data suppliers already had or could make available. The response categories of many questions can help to distinguish improvements over time. Questions with a more dichotomous 'yes' or 'no' response are combined with extended response questions. The proprietary scoring applied to a single category of purchasing practices also allows Better Buying to track improvements over time.

Better Buying takes a continuous improvement approach, by improving and refining ratings, scorings, and data as more knowledge is acquired.

METHODOLOGY CHALLENGES

Refining the research questions down (from hundreds to a few dozen) often involved excluding questions that stakeholders would presumably expect to see in evaluating purchasing practices. Care was taken to avoid duplicate impact assessment. For example, a question about design changes to finalized styles or those already in production was not included. This is because the key concerns associated with this practice had been addressed in questions relating to whether enough time was offered for production and if the buyer was flexible in adjusting ship dates to maintain the necessary production time.

In addition, practices that the supplier could not directly observe were excluded, for example, problems stemming from interpersonal relationships within buyer companies. The supplier may be aware of these issues, but due to the second-hand nature of the information are not able to properly evaluate the impact on their business.

WHAT PURCHASING PRACTICES ARE RATED?

The BBPPI rates buyers against seven different categories of purchasing practices:

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. CSR Harmonization

Suppliers are required to respond to all questions to prevent them from rating buyers only in the areas where performance needs to be improved. This provides a robust and fair evaluation of the business relationship buyers have with their suppliers.

HOW ARE THE DATA COLLECTED AND VERIFIED?

Data are collected on an online platform built and hosted by Fair Factories Clearinghouse. High levels of hardware and software security, coupled with tightly defined operating procedures, protect the data provided by suppliers.

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The BBPPI is supplier-centric and focuses on empowering and amplifying their voices in order to address the impact of poor purchasing practices on supplier ability to achieve financial, environmental, and social sustainability goals. To obtain supplier participation, effort has gone into approaching suppliers directly, without the intervention of buyers. This has been facilitated through the support of industry associations, key individuals in industry, word of mouth, and other approaches. Additionally, some buyers have engaged with us to invite their suppliers to participate. Supplier participation is completely voluntary.

The BBPPI is supplier-centric and focuses on empowering and amplifying their voices in order to address the impact of poor purchasing practices...

Suppliers register on the Better Buying platform by creating a basic profile; they may designate up to four individuals to input data. Ratings for each buyer 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 then complete the questionnaire specific to their business relationships with that buyer.

The proprietary scoring system is built into the data platform and when submitting the rating suppliers can instantly see the stars earned by the buyer they have rated. Suppliers are encouraged to rate as many of their buyers as possible.

Before using the submitted ratings, Better Buying carries out a data verification and cleaning process whereby documents provided by the supplier to prove a business relationship are reviewed and the plausibility of data is checked.

HOW ARE THE DATA ANALYZED AND STARS AWARDED?

Better Buying uses a 0 to 100-point scoring system to calculate overall scores and scores for each category. After the Better Buying system scores each question and category of purchasing practices, a star 'grading' is applied to the scores as follows (see Table 1).

Better Buying awards scores using a 0 to 5-star rating system.

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

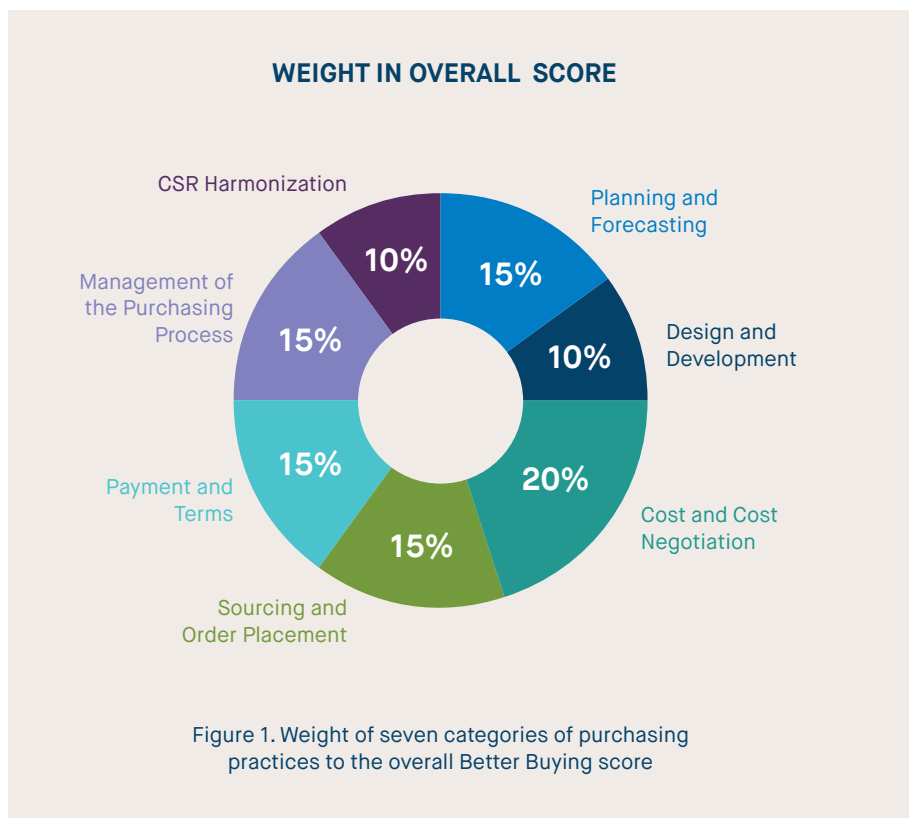
Table 1. Stars and corresponding numerical scores

Better Buying uses the weighting system outlined in Figure 1 to determine the weight of each purchasing practices category in the overall score.

After verification, Better Buying downloads all approved ratings submitted during the rating cycle and carries out additional analysis of the aggregated data.

Basic descriptive statistical analysis is conducted for the scores and responses to each question. Averages for the purchasing practice categories are based on scales from 0 to 100. Smaller averages reflect poorer purchasing practices while larger averages reflect better purchasing practices. Standard deviation (SD) reflects the variability of scores around the averages and gives an indication of the spread of buyer performance in a category. A larger SD indicates a wider range of responses and scores.

Analysis of variance (ANOVA) was also used to test for differences on the basis of characteristics of the buyers rated and suppliers submitting ratings, as well as simple linear regression examining the relationship between measures.



PARTICIPATION IN Q4 2017 RATING CYCLE

A total of 243 ratings were submitted in the first cycle of BBPPI data collection carried out in Q4 2017.

Ten ratings were rejected during the data verification and cleaning phase. Ratings were rejected when duplicates were submitted, the supplier could not demonstrate a current business relationship, or incorrect data was supplied.

A further 15 ratings of buyers whose orders had been products other than apparel, footwear, and household textiles were also omitted. These ratings have been withheld from this benchmark report as they are out of scope, but have been analyzed separately and made available to the buyers.

Of the total 243 ratings submitted, 218 were used in this benchmark report.

About the buyers that were rated

A total of 65 buyers across the industry were rated (see Table 2). Individual buyer ratings are not included in this report but have been made available to the buyer companies in cases where minimum numbers of ratings were received.

APPAREL, ACCESSORIES AND LUXURY GOODS (N=67)	APPAREL RETAIL (N=63)	DEPARTMENT STORES (N=9)	GENERAL RETAIL (N=79)
360 Sweater Company	Abercrombie & Fitch	Debenhams Retail Plc	Sainsbury's Supermarkets Ltd.
Armani	American Eagle Outfitters	House of Fraser (Stores) Ltd.	Target Corporation
Canada Pooch	Benetton S.p.A	J.C. Penney	Tesco Stores Ltd.
Dimensions	Bonmarché Ltd.	Kohl's Department Stores, Inc.	The White Company (UK) Ltd.
Fashion Pool GmbH	Burberry Ltd.	Macy's, Inc.	Walmart
Fenix Group	C&A	Nordstrom, Inc.	
Hakro GmbH	Charles Tyrwhitt Shirts Ltd.		
Hanes	Destination Maternity Corporation		
Helly Hansen AS	Express		
Karen Millen Fashions Ltd.	Gap Inc.		
Kate Spade, LLC	Hobbs Ltd.		
L.L. Bean, Inc.	Inditex		
Levi Strauss & Co.	J. Crew Group Inc.		
Mammut Sports Group AG	JP Boden & Co Ltd.		
Masai Clothing Company ApS	Mark's Work Wearhouse Ltd.		
Mountain Equipment Co-Op	Peek & Cloppenburg KG		
New Balance International Ltd.	Sportsgirl Pty Ltd.		
No Ordinary Designer Label Ltd.	The Cato Corporation		
Pretty Green	The Children's Place		
PVH Corporation	The Edinburgh Woollen Mill Ltd.		
Ralph Lauren Corporation	The Talbots Inc.		
Rapha Racing Ltd.	Urban Outfitters		
Reiss Ltd.	White Stuff		
Seasalt Ltd.			
Strategic Partners			
Sugartown Worldwide LLC			
Tommy Bahama Group, Inc.			
Uber A/S			
VF Corporation			
W. L. Gore & Associates GmbH			
Whistles Ltd			

Table 2. Buyers rated during Q4 2017 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.

Table 3 shows most buyers are located in Europe/United Kingdom (47.7%) and United States (47.7%).

Buyers were classified into 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 the purpose of 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:** buyers (or brands) 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:** buyers who sell products they source and develop primarily through their own stores.
- **Department Stores:** buyers who sell multiple brands in their retail stores, and who may also develop and source private label products.
- **General Retail:** buyers who sell multiple brands in their stores, and may also develop private label products. These buyers stock food, general merchandise, housewares, or other categories making them distinct from apparel retail and department stores.

LOCATION OF RATED BUYERS		
REGION AND COUNTRY	FREQUENCY (N=65)	%
Asia Pacific	3	4.6%
Australia	1	1.5
Hong Kong	2	6.2
Europe/UK	31	47.7
Denmark	1	1.5
Germany	4	6.2
Italy	1	1.5
Norway	2	3.1
Spain	1	1.5
Sweden	1	1.5
Switzerland	1	1.5
United Kingdom	20	30.8
North America	31	47.7
Canada	3	4.6
United States	28	4.3

Table 3. Location of rated buyers

Note. This information is based on what the supplier submitted.

As well as approaching suppliers directly to solicit participation, eight buyers took leadership roles in the Q4 2017 rating cycle (highlighted in bold in Table 2) by providing their full or partial supplier lists and invitations for their suppliers to participate. Better Buying used the information and invitation letters to contact suppliers and urged them to take the opportunity to give honest and anonymous feedback. Several buyers engaged in this process thanks to the encouragement of multi-stakeholder initiatives making commitments to responsible purchasing practices.

About the suppliers who submitted ratings

Better Buying protects the anonymity of suppliers by withholding the identities of those who submit ratings and the raw data they provide. The ratings from 156 suppliers across 24 countries were grouped into regions, analyzed, and included in this benchmark report (see Table 4).

SUPPLIER HEADQUARTER		
REGION AND COUNTRY	FREQUENCY (N=156)	%
Asia Pacific	1	0.64
Australia	1	0.64
East Asia	36	23.08
Cambodia	4	2.56
Korea, Republic of (South Korea)	12	7.69
Malaysia	1	0.64
Taiwan	13	8.33
Thailand	3	1.92
Vietnam	3	1.92
EEMEA (Eastern Europe/Central and Western Asia, Middle East, Africa)	7	4.49
Mauritius	1	0.64
Tunisia	1	0.64
Turkey	5	3.21
China/Hong Kong	51	32.69
China	22	14.10
Hong Kong	29	18.59
South Asia	20	12.82
Bangladesh	1	0.64
India	17	10.90
Pakistan	1	0.64
Sri Lanka	1	0.64
US/Canada	23	14.74
Canada	4	2.56
United States	19	12.18
Western Europe/UK	18	11.54
France	1	0.64
Ireland	1	0.64
Italy	1	0.64
Portugal	7	4.49
Sweden	2	1.28
United Kingdom	6	3.85

Table 4. Location of supplier headquarters

Suppliers were asked to indicate their business model (see Table 5).

Of those suppliers owning factories, the average number of factories owned was just over four and the average number of workers employed in those factories during the high season was 5,672 (see Table 6).

Suppliers maintained a fairly large number of customers. The average is skewed higher because of the large customer base held by a few suppliers with unique business models (see Table 7). The median number of customers was 20 and the average buyer-supplier business relationship spanned fewer than 10 years (see Table 8).

SUPPLIER BUSINESS MODEL	FREQUENCY (N=156)	%
Factory owners	111	71.15
Licensee/Agent/Vendor	59	37.82
Brand/Wholesaler	21	13.46

Table 5. Supplier business model

Note. Suppliers could pick more than one business model.

CHARACTERISTICS	AVERAGE (N=111)	SD	MINIMUM	MAXIMUM
No. of factories owned	4.15	4.74	1	24
Total number of workers at factories owned by supplier (during high season)	5671.77	10091.78	23	60000
Total number of workers at factories owned by supplier (during low season)	5296.93	9618.06	20	55000

Table 6. Factory characteristics

CUSTOMERS	AVERAGE (N=218)	SD	MINIMUM	MEDIAN	MAXIMUM
No. of different customers in the last 12 months	39.32	100.94	2	20	1300

Table 7. Number of different customers

YEARS	AVERAGE (N=218)	SD	MINIMUM	MAXIMUM
No. of years of relationship	9.42	7.27	1	37

Table 8. Years of business relationship supplier has with buyer

3. Scores and Ratings

Table 9 outlines the scores of the 218 submitted ratings from the Q4 2017 rating cycle. Color differentiates between good scores of between 4 to 5 stars (green), average scores of 2 to 3.5 stars (turquoise), 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 the rating period.

In Q4 of 2017 the average overall Better Buying score for buyers was 2.5 stars out of 5, but the scores assigned to individual companies varied widely, from a low of 0 stars to a high of 4.5 stars (see Table 9). The best performing category was in Payment and Terms (4.5 stars), while the worst performing category was in Sourcing and Order Placement (0 stars).²

As we begin to recognize individual companies with higher ratings and identify their best practices, these buyers will provide a roadmap for others to follow.

The industry benchmark does not represent a standard of good performance, it simply indicates average industry performance during the rating period.

BETTER BUYING SCORE	AVERAGE ALL SUBMITTED RATINGS (N=218)
Overall	★ ★ ★
Planning and Forecasting	★ ★
Design and Development	★ ★ ★
Cost and Cost Negotiation	★ ★ ★ ★
Sourcing and Order Placement	★
Payment and Terms	★ ★ ★ ★ ★
Management of the Purchasing Process	★ ★ ★ ★
CSR Harmonization	★ ★ ★ ★

Table 9. Overall Better Buying scores and average scores across seven categories of purchasing practices (0 to 5 stars).

² The numerical scores associated with the star ratings can be found in Table A1 of the Appendix.

4. Key Findings

In this section, we go beyond the stars and look at purchasing practices in more detail.

BEST BUYER PERFORMANCE IS IN PAYMENT AND TERMS

Payment and Terms, which measures whether suppliers are paid on time and at the price agreed in the contract, was the best performing category across the board. It received an average score of 4.5 stars, with scores ranging from 0 to 5 stars.

The best performance was in Payment and Terms, which measures whether suppliers are paid on time and at the price agreed in the contract.

To calculate this rating, suppliers were asked about the various ways buyers may use to avoid paying in full. The score indicates whether the buyer treats its suppliers fairly when it comes to the payment and terms of the orders. As is the case in many buyer-supplier relationships, failure to adhere to the payment and terms of the order can put financial strain on suppliers and increase risks throughout the supply chain. In addition, failure to pay on time can be a leading indicator of bankruptcy, information which will be helpful for suppliers and financial partners.

Most suppliers (92.7%) reported their buyers paid the bills on time. For those that were late, delays ranged from 10 to 180 days, with an average of 38-day delay (SD = 48.75).

Nearly one-quarter of suppliers reported their buyers used various tactics to get out of paying in full...

Where a bill is paid on time, it doesn't necessarily mean it was paid in full. Nearly one-quarter of suppliers reported their buyers used various tactics to get out of paying in full, for reasons that had nothing to do with supplier performance (see Table 10).

An optional question in the Q4 2017 rating cycle asked 'Beyond paying the bill on time and in full, what do good Payment and Terms practices look like?' The responses indicated that going beyond the basics and providing some favorable terms for the supplier would be ideal. Some favorable practices from buyers included:

- Paying sample invoices before the samples ship (8.3%)
- Issuing letters of credit so that suppliers are paid promptly and avoid having to take an external line of credit at high interest rates (6.9%)
- Paying for volume orders in full on or before shipment (4.1%)
- Paying deposits on volume orders (0.9%).

PAYMENT REDUCTION PRACTICES	FREQUENCY (N=218)	% OF ALL SUBMITTED RATINGS
Discounts/rebates required by the buyer after price was agreed	22	10.1%
Late or unsubstantiated claims of quality defects	12	5.5
Requirement to provide discount or switch currency used in the order due to currency fluctuations	10	4.6
Reduction in payment due to price drop in raw materials	6	2.8
Reduction of payment for arbitrary administrative procedures	4	1.8
Other	15	6.9
Buyer did not use practices to avoid full payment	167	76.6

Table 10. Practices used to avoid full payment

ORDER RISK-TO-REWARD

Order Risk-to-Reward (ORR) measures how much monthly unit volume varies from the average order over the year, and provides a clearer understanding of the volatility in the month-to-month relationship. ORR is based on the coefficient of variation, which is calculated by dividing SD of the month-to-month order volume during the year by the average of those orders, and multiplying the figure by 100 to convert the scores to a percentage.

The risk part of the equation underscores the challenges suppliers face in adjusting to dramatic peaks and troughs of orders. The reward part of the equation considers the average order size received from the buyer with recognition that larger volume is generally more beneficial to suppliers.

Suppliers having no risk, or an ORR of 0 would be the best case scenario. In scoring this, orders that are primarily basic products are differentiated from those that are primarily fashion products because suppliers acknowledge that there are no fashion products without order volatility.

Better Buying is making some changes to the questions and scoring of the Payment and Terms category for the upcoming rating cycle to better capture these good practices. Advance payment and favorable terms will be scored, and a new question on payment of sample invoices will be added. These changes mean scores for this category are likely to differ in the next industry benchmark report.

WORST BUYER PERFORMANCE IS IN SOURCING AND ORDER PLACEMENT

Sourcing and order placement encompasses two topics:

1. Do buyers reward suppliers for compliance to their codes of conduct?
2. To what extent do month-to-month orders fluctuate?

Sourcing and Order Placement was the worst performing category across the board, with an average score of 0 stars and the highest score reaching only 3.5 stars.

Scores for individual buyers were dependent on where the buyer was headquartered. Buyers in *North America* (0.5 stars) received better scores in Sourcing and Order Placement than buyers in *Europe/UK* (0 stars) or in *Asia Pacific* (0 stars).³

North American buyers (0.5) had better scores on Sourcing and Order Placement than buyers in Europe/UK (0 stars) or Asia Pacific (0 stars).

Do buyers reward suppliers for compliance to their codes of conduct? More than 60% of suppliers reported that no incentives were received for their compliance to buyers' codes of conduct (see Table 11). This puts compliant suppliers' costlier operations in head-to-head competition with suppliers who may be doing little to ensure the health and safety of their workers.

More than 60% of suppliers reported that no incentives were received for their compliance to buyers' codes of conduct.

³ Further details on that analysis can be found in Table A2 of the Appendix.

To what extent do month-to-month orders fluctuate? Having too much business in some months and none or too little in other months makes it difficult for suppliers to plan and maintain a workforce.

In sharing information about the volume of orders they received every month from their buyers, it becomes easy to understand how challenging it is for suppliers to plan production with erratic shifts of volume from month-to-month. To compare the vastly different volume of orders from buyers, we have calculated the Order Risk-to-Reward (ORR). Across all suppliers, the average ORR was 102% but with quite a bit of variability experienced by suppliers. ORR ranged from a low of 0 to a high of 346% (See Table 12).

INCENTIVES	FREQUENCY (N=218)	% OF ALL SUBMITTED RATINGS
Premium prices	7	3.2%
Larger volume	55	25.2
More favorable mix of products	24	11.0
Consistent minimum volume of production per month	23	10.6
Buyer-paid training for skill building/capacity development	17	7.8
Option to set higher minimum order level	10	4.6
Other incentive	4	1.8
No incentives were provided	132	60.6

Table 11. Incentives provided to suppliers for compliance/CSR

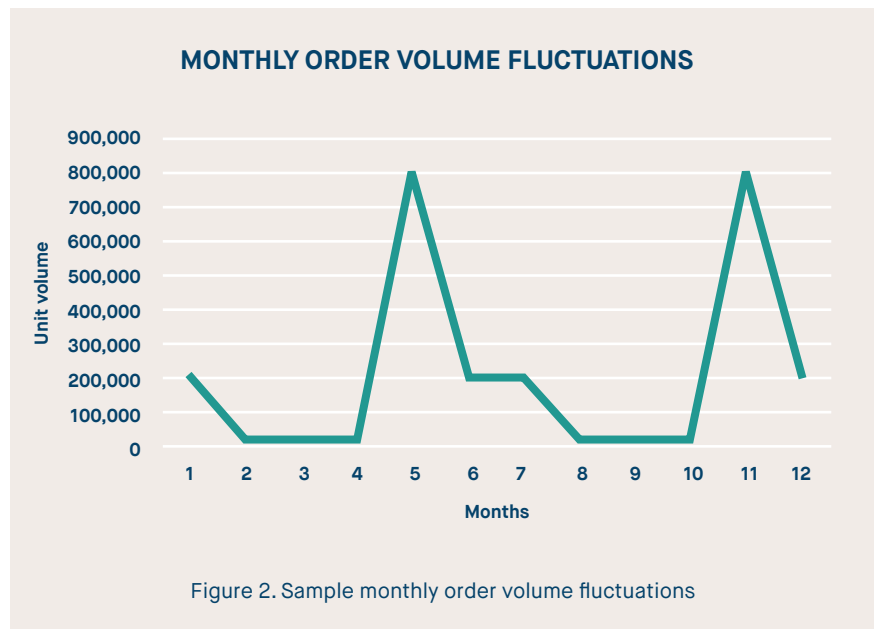
ORDER RISK TO REWARD %	FREQUENCY (N=218)		% OF ALL SUBMITTED RATINGS	
	BASIC ORDERS (70% OF RATINGS) (N=153)	FASHION ORDERS (30% OF RATINGS) (N=65)	BASIC ORDERS (70% OF RATINGS) (N=153)	FASHION ORDERS (30% OF RATINGS) (N=65)
ORR=0	8	2	5.2%	3.1%
ORR=1-20	6	4	3.9	6.1
ORR=21-40	16	8	10.5	12.3
ORR=41-60	26	8	17.0	12.3
ORR=61-80	22	9	14.4	13.8
ORR=81-100	16	6	10.5	9.2
ORR=101-120	15	7	9.8	10.8
ORR=121-140	8	4	5.2	6.2
ORR=141-160	3	2	1.9	3.1
ORR=161 or more	33	15	21.6	23.1

Table 12. ORR for basic and fashion orders

Figure 2 shows an example where monthly orders fluctuate from a low of 20,000 to a high of 800,000 units per month, or 137% according to Better Buying's ORR measure. A high ORR indicates inconsistent month-to-month ordering; in this case, risk that is over 100 times the reward.

ORR differed by the region where buyers were located. More steady and consistent business was reported as coming from buyers in North America, who had an average ORR of 85.4% (SD=72.5). This compares with volatile average orders coming from buyers based in Europe/UK (ORR=123.8%, SD=78.9) and Asia Pacific (ORR=144.1%, SD=82.8).⁴

In addition, ORR differed depending on where the suppliers were headquartered. Suppliers located in East Asia (all countries except China/Hong Kong) experienced lower ORR/less volatility in orders (average of 73.2%, SD=69.9) than suppliers located in China/Hong Kong (average ORR of 116.4%, SD=75.5) and Western Europe/UK, where suppliers experienced the most volatility of all regions (average of 155.6%, SD=100.4).⁵



More steady and consistent business was reported as coming from buyers in North America.

What explains these regional differences? One reason may be that suppliers headquartered in Europe/UK are viewed by European buyers as 'domestic' suppliers, able to quickly respond to unexpected needs, even though their production may be scattered all over the world. In addition, buyers may assume that the vast capabilities and resources of suppliers in China/Hong Kong make them better able to respond to dramatic peaks and troughs in production.

What happens as a result of inconsistency in monthly volume? Some suppliers indicated they were reluctant to be completely honest about how monthly order fluctuation impacted working conditions (an optional question in this first rating cycle which will be scored in the future). Over 42% indicated that the month-to-month variability they experienced in buyer orders did not impact working conditions (see Table 13). Others reported a range of impacts, including: overtime within the law or code requirements, overtime in excess of law or code requirements, hiring of temporary workers, unauthorized subcontracting, reduced hours/underemployment, and layoffs/retrenchment of workers.

⁴ Information about the statistical testing is available in Table A3 of the Appendix.

⁵ See Table A4 in the Appendix for more information about the statistical testing.

While it is difficult to imagine a fashion industry without any variability, we did observe some low ORR for fashion products in this round of data collection. With this information, we can start to identify the leading factors which contribute to inconsistent orders and work with buyers to help improve their purchasing practices.

PLANNING AND FORECASTING IS IN CRITICAL NEED OF IMPROVEMENT

Improvements in the Planning and Forecasting category are needed. Planning and Forecasting measures the extent to which buyers include suppliers in product order plans, as well as the accuracy of the buyers' planned orders compared with orders actually placed.

Planning and Forecasting received an average score of 1.5 stars, with the scores ranging from 0 to 5 stars.

While the majority of suppliers (83.9%) reported receiving forecasts (or some other form of production insight) from their buyers, they also indicated they had not been received far enough in advance. About a quarter reported that the forecast was received only 30 to 59 days in advance of order placement (see Figure 3). In contrast, 18.8% of all supplier ratings reported buyers provided a forecast 120 days or more in advance of order placement.

IMPACTS ON WORKING CONDITIONS	FREQUENCY (N=218)	% OF ALL SUBMITTED RATINGS
Subcontracting approved by the buyer	14	6.4%
Overtime within the law or code requirements	86	39.4
Hiring of temporary/casual labor	45	20.6
Unauthorized subcontracting	8	3.7
Overtime in excess of law or code requirements	21	9.6
Inability to meet wages and social benefit requirements	7	3.2
Reduced hours/underemployment	29	13.3
Layoffs/retrenchment of workers	14	6.4
Other impact	8	3.7
No impact on working conditions	93	42.7

Table 11. Impacts of month-to-month order variability on working conditions

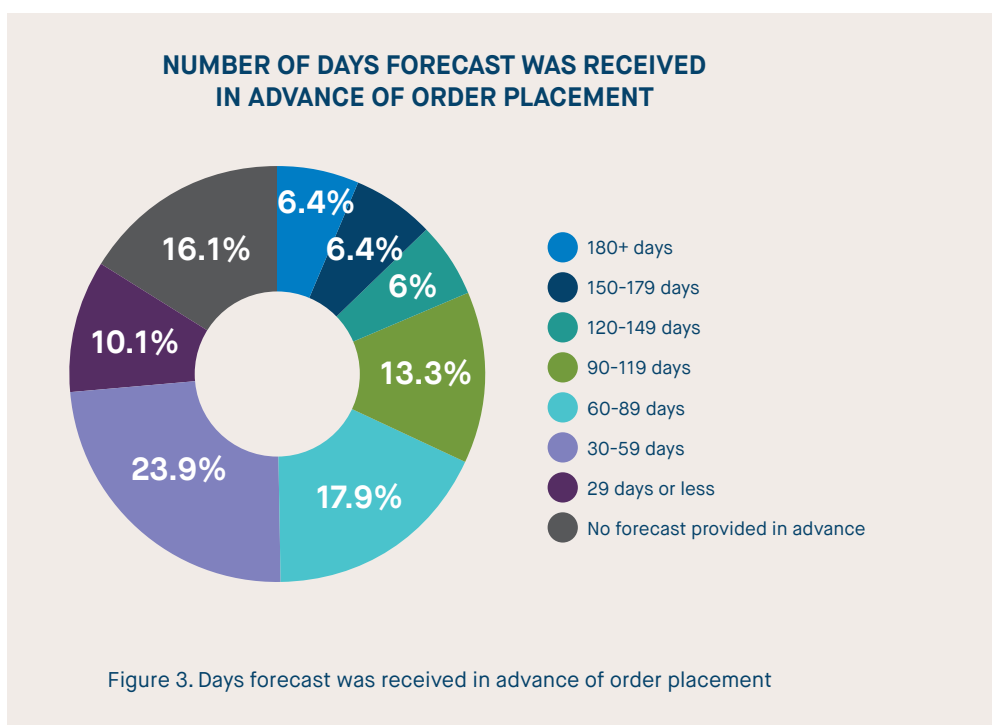


Figure 3. Days forecast was received in advance of order placement

WHAT DOES INACCURATE FORECASTING LOOK LIKE AND HOW DOES IT POTENTIALLY IMPACT WORKERS?

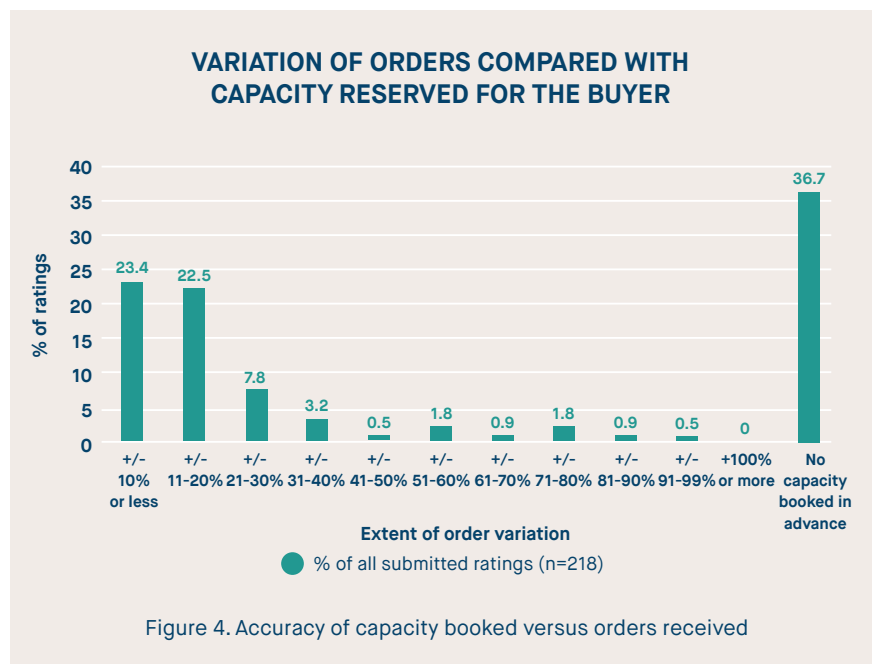
If the buyer reserves capacity for 100,000 units and comes in 40% over, the supplier now needs to find space to produce 40,000 more units. Even with 20% difference, the supplier is still looking for ways to produce 20,000 more than planned. What are the options? Overtime... subcontracting... hiring temporary labor.

Suppliers may be fortunate enough to create capacity by pushing back the ship date of another order. Or the order itself may be much smaller than anticipated. If the supplier commits only a portion of its capacity in advance, they may be able to accommodate larger than expected orders. This is risky too, as the order may fall short and leave workers with nothing to do, except look for a job at a busy factory elsewhere.

In some instances, when capacity was booked in advance it did not match up with the actual orders received. Nearly 24% of all suppliers reported that the actual orders varied by +/- 10% or less, which is a level of accuracy all buyers should strive for. Another 22.5% of the ratings showed the forecast was within +/- 11-20% (see Figure 4).

What is more concerning than the accuracy of forecasting is that nearly four out of 10 buyers didn't ask their suppliers to reserve capacity in advance. This confirms that a large amount of business comes from buyers chasing last-minute production for styles they had not anticipated in advance or those selling more rapidly than expected. Open-to-buy is an increasingly large part of buyers' business and a challenging one for suppliers.

What is more concerning than accuracy of forecasting was that nearly 4 out of 10 buyers didn't ask their suppliers to reserve capacity in advance. This confirms that a large amount of business comes from buyers chasing last-minute production...



HELP NEEDED IN DESIGN AND DEVELOPMENT

Design and Development received an average score of 2.5 out of 5 stars. The scores ranged from 0 to 5 stars which indicates some companies are far outperforming others.

Design and Development measures the lateness or inaccuracy of technical and production details provided to suppliers by buyers. This category also covers the frequency with which suppliers receive orders for products they develop.

Scores in Design and Development varied according to the region where the supplier was headquartered. Suppliers based in China/Hong Kong suffered from lower buyer performance in Design and Development (2 stars), as compared with suppliers based in South Asia (3 stars) and in Western Europe/UK (3 stars).⁶

The vast majority of suppliers (95.9%) were developing products for the buyers they rated, yet infrequently won the volume order for those products. Over a third of suppliers indicated that they received orders for fewer than 40% of the products they developed, a low hit rate given all the time and resources that go into development. In contrast, just 6% of suppliers received orders for every product they developed for a buyer and a further 13.3% of suppliers reported receiving orders on nine out of 10 products they had developed.⁷

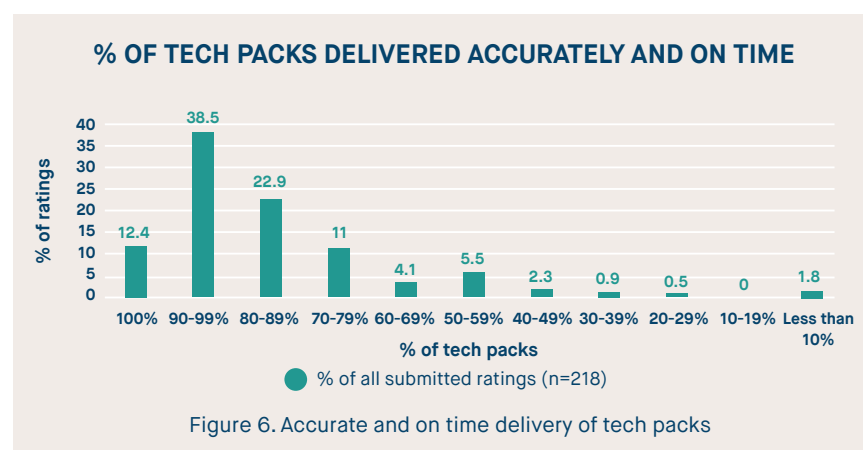
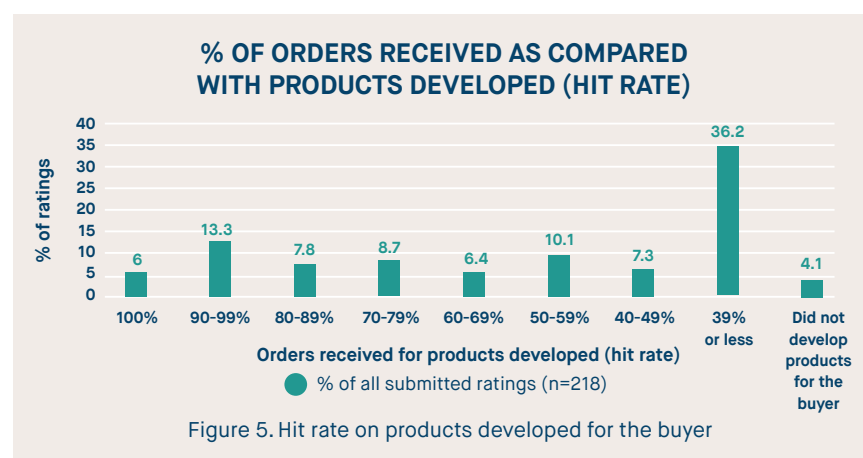
⁶ See Table A5 in the Appendix for details.

⁷ Some suppliers produce samples for pay without an expectation of receiving volume orders. Currently, however, Better Buying requires suppliers to have volume orders to demonstrate a business relationship with the buyer being rated.

Half of all suppliers indicated that 90-100% of tech packs were delivered accurately and on time. Tech packs act as a recipe book for supplier costing and production. They contain detailed specifications for materials including fiber content, weight of fabrics, seam types, stitch counts, trim and embellishment details, as well as size measurements and quality control indicators.

When tech packs are delivered late, incomplete, or with inaccuracies there are delays in production. Subsequent problems arise if the free on board (FOB) price has already been locked and the specifications require more costly than anticipated techniques or materials.

More than one-third of suppliers indicated that they received orders for fewer than 40% of the products they developed. This is a low hit rate given the time and resources that go into development.



NEGOTIATION STRATEGIES THAT PRESSURE SUPPLIERS TO ACCEPT LOWER PRICES

- Take it or leave it—meet the target cost or the supplier will not win the order
- Allowing short response times to price demands
- Using an online bidding strategy versus a ‘partnership’ negotiation strategy
- Comparing suppliers only on price instead of a full range of attributes
- Sharing competitors’ bids or pressure to meet competitor costs from across different countries
- Requiring supplier to meet specific elements of other suppliers’ cost structure
- Demanding across the board price cuts from previous orders or years
- Demanding level prices be maintained from year to year with no consideration for inflation
- Continuing to negotiate prices after bulk production has started
- Threatening to move production of existing programs or cutting orders in the future
- Asking for price commitments based on a larger volume than actual quantity ordered
- Making changes to product specifications after FOB price is locked
- Making changes to terms (e.g., payment, ship dates, quantities, factories) after issuing purchase order
- Persistently calling or emailing, asking for lower price, multiple rounds of negotiation, or other fatigue producing tactics
- Using threatening language or negotiating in an angry tone

Over 43% of suppliers reported experiencing high pressure negotiating strategies.

DO PRICES SET BY BUYERS COVER COMPLIANT PRODUCTION?

The Cost and Cost Negotiation category evaluates whether suppliers are given enough funds to meet all the buyer’s expectations, including production costs, and compensation for workers that meet buyer codes of conduct and legal requirements.

Cost and Cost Negotiation received an average score of 3.5 stars, with scores ranging from 0 to 5 stars.

Under half of suppliers (38.1%) indicated that the prices they received for all of their products covered compliant production. An additional four out of 10 said 80 to 99% of their orders were priced to cover compliant production. The remaining 20.6% received a large amount of orders where the costs were too low to cover compliant production (see Figure 7).

How do suppliers end up with orders that don’t cover all the costs of production? A supplier may accept an order at a lower price in the hope of snagging a major buyer’s business for the future, or they may do so in order to keep their workforce employed in periods where orders were less than anticipated.

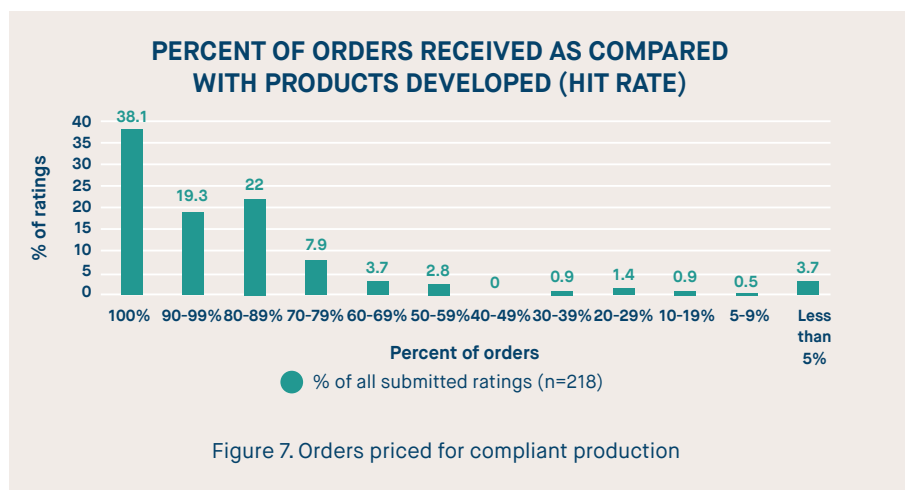
Buyers’ negotiation strategies are also a leading factor in Cost and Cost Negotiation ratings. Over 43% of suppliers reported experiencing high pressure negotiating strategies (see box to the left). Negotiation strategies were not taken into consideration in this cycle of data collection but will be

incorporated when calculating Cost and Cost Negotiation scores moving forward.

Some regional differences were observed in the ratings for Cost and Cost Negotiation. First, scores varied depending on the region in which the buyer was headquartered. Buyers headquartered in Europe/UK (4 stars) had better costing practices than those headquartered in North America (3.5 stars).⁸

Buyers headquartered in Europe/UK (4 stars) had better costing practices than those headquartered in North America (3.5 stars).

Second, scores varied according to the region of the world in which the buyer's largest order was placed.⁹ Suppliers reported more price pressure coming from buyers whose largest orders were placed in East Asia (Cambodia, Indonesia, Malaysia, Thailand, and Vietnam). The scores were significantly lower (2.5 stars) than when the largest orders were placed in China/Hong Kong (4 stars), South Asia (4 stars), or US/Canada (4 stars).¹⁰ The higher volume of orders being produced in Cambodia and Vietnam (East Asia region), where labor costs have risen dramatically,



may suggest that buyers are not complying with increased labor costs. Better Buying was unable to determine whether the largest orders placed in the countries outlined in table A7 (Appendix) was due to buyers directing them to do so, or because the suppliers were turning to their lowest price options. Nevertheless, price pressures are being felt more acutely by the factories and workers in these countries.

The larger number of orders being produced in Cambodia and Vietnam... where labor costs have risen dramatically suggests that buyers' pricing may not be keeping up with the inflationary changes in these producing countries.

Scores on Cost and Cost Negotiation also varied significantly according to the region where the supplier was headquartered. Suppliers based in East Asia reported that their buyers' Cost and Cost Negotiation strategies were the worst (2.5 stars). Buyers whose suppliers were based in China/Hong Kong, US/Canada and Western Europe/UK all received 4 stars and buyers whose suppliers were based in South Asia earned 3.5 stars. Suppliers in East Asia may have higher overhead costs, making compliant pricing even more difficult when buyers negotiate prices across multiple regions.

⁸ Refer to Table A2 of the Appendix.

⁹ Statistical details can be found in Table A6 of the Appendix.

¹⁰ Details of the locations where rated buyers' largest orders were produced is in Table A7 of the Appendix.

HOW ARE BUYERS MANAGING THE PURCHASING PROCESS?

Managing the Purchasing Process received an average score of 3.5 with scores ranging from 0 to 5 stars.

This category assesses the amount of time offered to the supplier during development and production. Buyers are required to complete all key actions outlined in a Time and Action (TNA) Calendar specific to the production cycle.

Nearly all suppliers (95.9%) reported that TNA calendars were used by their buyers and the majority (86.2%) found that the calendar, or the contract terms, provided enough time for production. These figures provide a good starting point. However, it is concerning that nearly 14% of ratings indicate there is not enough time for production from the start.

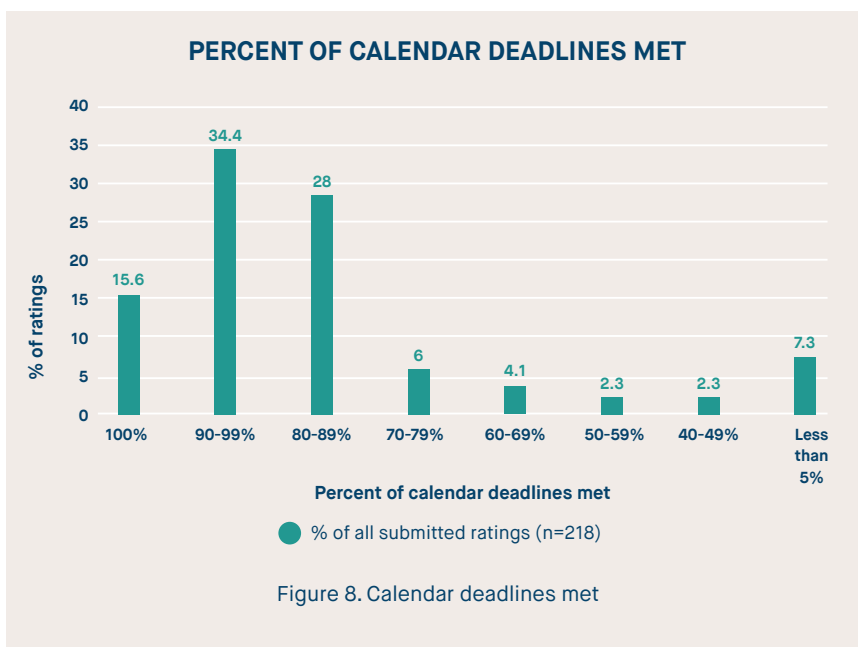
It is concerning that nearly 14% of ratings indicate there is not enough time for production from the start.

KEY MILESTONES IN TIME AND ACTION CALENDARS

- Hand-off of detailed style information for design proto samples (e.g. initial Tech Pack or detailed sketch and material descriptions)
- Ordering proto sample materials
- Comments on fit/proto samples
- Trims and artwork sample approvals
- Lab dips/color sample approvals
- Wash/finishing sample approvals
- Style consolidation and release of sale sample order
- Ordering sales sample materials
- Sales sample approvals
- Quality testing approvals (development test of fabric, material, garment, etc)
- Bulk order confirmation
- Bulk order quantity forecast
- Hand off of tech pack for bulk production
- Release of purchase order
- Ordering bulk production materials
- Ordering or technical details for packaging (e.g. labels, hang tags, instructions) for bulk production
- Fit sample approval
- Material/s approval
- Size set approval
- Final pre-production sample sign-off
- Quality testing approvals (production test of fabric, material, garment, etc.)
- Top of production sample approvals
- Final inspection approval
- Shipping sign-off

To ensure a smooth production process, buyers should meet the deadlines as outlined in the TNA calendar. The ratings indicated that just half of all buyers met their deadlines 90% or more of the time (applicable to a buyers largest orders only), and 15.6% of those met all the deadlines in their TNA calendars (see Figure 8). Worryingly, 22% of buyers failed to meet deadlines more than 79% of the time.

Suppliers revealed that it is often deadlines in the development or pre-production stages that are missed. To better understand which deadlines are most often missed and to help buyers improve in this category, this measure will be altered for future rating cycles.



From the data, we can see that most buyers are adhering to their responsibilities of providing enough time for production and adjusting shipping dates or prices when needed. Just 8.7% of the buyers responsible for delays did not amend the ship dates or prices (see Table 14).

From the data, we can see that most buyers are adhering to their responsibilities of providing enough time for production and adjusting shipping dates or prices when needed.

FLEXIBILITY AND ACCOUNTABILITY FOR DELAYS	FREQUENCY (N=218)	% OF ALL SUBMITTED RATINGS
No changes/requirements/performance failures made by the buyer or nominated suppliers necessitated flexibility/accountability to ensure adequate production time	79	36.2%
The buyer was flexible in adjusting shipping dates and/or prices to ensure adequate production time	120	55.0
The buyer was responsible for delays but did not amend ship dates or prices	19	8.7

When buyers are not accountable in ensuring adequate production time, suppliers incur the unexpected costs and associated risks to make up for lost time. This can often lead to unauthorized subcontracting, unpaid overtime, or the supplier having to pay for costly air shipment.

Table 14. Buyer flexibility and accountability for delays

SUPPLIER DEMAND FOR BUYER PERFORMANCE ON CSR HARMONIZATION

CSR Harmonization includes both the internal alignment of buyer companies on corporate social compliance goals and their contribution to reducing industry-wide audit duplication. Industry-wide audit duplication was added to the index at the insistence of suppliers consulted during index development. CSR Harmonization received an average score of 3.5 stars, with scores ranging from 0 to 5 stars.

A total of 11.5% of buyers made demands that conflicted with CSR or compliance requirements. In open-ended responses, 10 suppliers shared the types of conflicts they faced.

Examples include:

- Demanding lower prices that negatively affect the workplace
- Not allowing enough time for sampling, color/print approvals, or other development activities, but still requiring urgent delivery, leading to inadequate production time and overtime
- Wasting time during color and print approvals, thus not allowing enough time for production
- Last minute changes adding cost and time to production
- Overloading factories leading to noncompliant overtime.

The most frequently reported impact on working conditions among all suppliers was overtime – either within the law or code requirements (7.3%) or in excess of law or code requirements (6.0%, see Table 15).

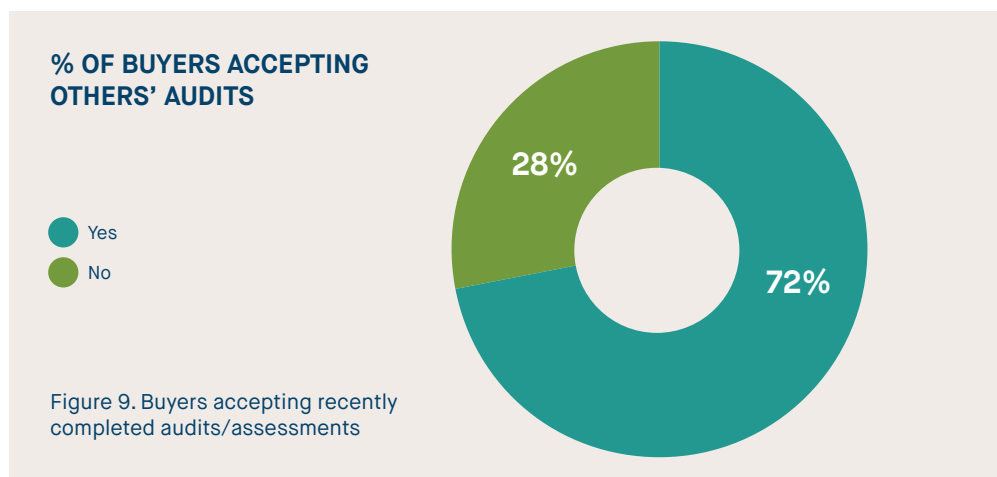
IMPACTS ON WORKING CONDITIONS	FREQUENCY (N=218)	% OF ALL SUBMITTED RATINGS
No impacts on working conditions	6	2.8%
Subcontracting that was approved by the buyer	8	3.7
Overtime within the law or code requirements	16	7.3
Hiring of temporary/casual labor	12	5.5
Unauthorized subcontracting	8	3.7
Overtime in excess of law or code requirements	13	6.0
Inability to meet wages and social benefit requirements	3	1.4
Other impact	-	-
No conflicting demands were experienced	193	88.5

Table 15. Impacts of internal buyer conflicts on CSR

72% of supplier ratings reported that their buyers accepted results from recently completed audits/assessments in lieu of completing one solely for the buyer company.

With regard to the external aspect of CSR Harmonization, to help suppliers save money and combat audit fatigue 72% of buyers accepted results from recently completed supplier audits/assessments in lieu of completing one solely for the buyer company (see Figure 9).

Data and feedback from this rating cycle made it apparent that buyers with no expectations for good workplace conditions were able to score highly on CSR Harmonization, an issue which has been corrected for the upcoming rating cycle.



BUYER TYPE – ANOTHER WAY OF LOOKING AT PURCHASING PRACTICES PERFORMANCE

The index also examined whether buyers across different types of businesses, received different scores. Overall scores and scores on all categories of purchasing practices except Payment and Terms, significantly differed by Buyer Type (see Table 16).¹¹

Apparel, Accessories, and Luxury Goods and *General Retail* had the best overall scores, with an average of 3 stars. In contrast, *Department Stores* scored only 1 star overall and were significantly lower than every other Buyer Type.¹²

While *Department Stores'* low ratings show a worrying trend, it is important to note that none of this Buyer Type volunteered their supplier lists to be included in the index. As a result, there are only a small number of department store ratings and they are not representative of the entire supplier base serving these stores.

It can be concluded that the most steady and consistent business for suppliers is coming from buyers in General Retail.

In addition to the differences in the overall ratings, there were distinct differences in the purchasing practices categories, and no single Buyer Type was rated the best overall. Some key findings include:

- **Apparel, Accessories, and Luxury Goods** had the highest scores in Design and Development (3 stars) and Cost and Cost Negotiation (4.5 stars), with performance that was significantly better than every other Buyer Type.
- **General Retail** outperformed all other Buyer Types in the Sourcing and Order Placement category (0.5 stars), but ALL buyers need to improve in this category.
- **Department Stores** had significantly worse performance than every other Buyer Type in Planning and Forecasting (0 stars), Management of the Purchasing Process (1 star), and CSR Harmonization (0 star).

The index also analyzed how the ORR varied by Buyer Type, and the results showed that month-to-month volatility differed significantly. *General Retail* had the lowest ORR (M=72.7, SD=65.1), and significantly less month-to-month volatility than *Apparel Retail* (M=101.45, SD=75.4) and *Apparel, Accessories, and Luxury Goods* (M=136.5, SD=82.5). Therefore, it can be concluded that the most steady and consistent business for suppliers is coming from buyers in the General Retail category.

Differences in Buyer Type ORR may be the result of the dominant role of retailers industry-wide. When rating *General Retail*, it may be the case that their scores reflect less volatility because they develop and source products within the more stable product categories, while relying on named brands (e.g., *Apparel, Accessories, and Luxury Goods* buyers) to fulfil the more unstable categories.

As the index expands and more data is collected, there will be further investigation into these trends, such as the correlation between product categories and purchasing practices performance.

¹¹ Results of the statistical test of difference are found in Table A8 of the Appendix.

¹² Scores for each buyer type on the 100-point scale are in Table A8 of the Appendix.

BETTER BUYING SCORE	APPAREL, ACCESSORIES AND LUXURY GOODS (N=67)	APPAREL RETAIL (N=63)	DEPARTMENT STORES (N=9)	GENERAL RETAIL (N=79)
Overall	★ ★ ★	★ ★ ★	★	★ ★ ★
Planning and Forecasting	★ ★	★	★	★ ★
Design and Development	★ ★ ★	★ ★	★ ★	★ ★
Cost and Cost Negotiation	★ ★ ★ ★ ★	★ ★ ★ ★	★ ★ ★	★ ★ ★ ★
Sourcing and Order Placement	★	★	★	★
Payment and Terms	★ ★ ★ ★ ★	★ ★ ★ ★ ★	★ ★ ★ ★	★ ★ ★ ★ ★
Management of the Purchasing Process	★ ★ ★ ★	★ ★ ★ ★	★	★ ★ ★ ★
CSR Harmonization	★ ★ ★ ★	★ ★ ★ ★	★	★ ★ ★ ★

Table 16. Star ratings by Buyer Type

ADDITIONAL FINDINGS

Effects of business model

The index examined if the way orders were received impacted results. The scores were better for those buyers who had a direct relationship with the suppliers rating them, compared with buyers whose orders came through third parties.¹⁴

Overall, Better Buying scores reveal better performance for buyers who ordered directly from the supplier (2.5 stars), compared with buyers using a third party (2 stars). Buyers who ordered directly from the supplier also scored better on Cost and Cost Negotiation (4 stars, compared with 2.5 stars for

buyers using a third party) and for Management of the Purchasing Process (4 stars, compared with 3 stars for buyers using a third party). These findings suggest the influential role of middlemen in amplifying the good or bad in buyers' purchasing practices.

Overall Better Buying scores reveal better performance for buyers who ordered directly from the supplier (2.5 stars) as compared with buyers using a third party (2 stars).

What might explain these differences? Good communication and dialog between buyers and suppliers is critical in bringing products to market. It can be concluded that a direct line of communication between the buyer and supplier is more efficient than involving a third party, and is especially critical in the Design and Development phases where the style, fit, and quality details of the product are refined.

¹⁴ Statistical details are in Table A10 in the Appendix.

Supplier customer base

The index examined if the amount of customers a supplier had affected the scores they gave. Unsurprisingly, suppliers with fewer customers scored buyers higher in Design and Development and Management of the Purchasing Process.¹⁵ It can be concluded that suppliers with fewer customers spend more time managing their customers' work to support efficient and timely progress in Design and Development and through the critical deadlines of the TNA calendar. While suppliers with a larger customer base are more likely to hire additional account managers, the personal attention to each customer may be lower. Further investigation will be required as the index expands.

Length of relationship

Longer term buyer-supplier relationships are often cited as a way to improve purchasing practices. Therefore, the index analyzed if the length of these relationships impacted results. No significant correlation was found between the length of a buyer-supplier relationship and overall Better Buying scores, or the scores in any other category.

No significant correlation was found between the length of a buyer-supplier relationship and overall Better Buying scores, or the scores in any other category.

Who submits the data for Better Buying ratings?

There has been discussion in the supplier community about who is best suited to complete the detailed Better Buying questionnaire. In some cases, large suppliers are putting one individual in charge of gathering information from multiple departments. Small- to medium-sized enterprises have discussed whether a single individual – the owner or managing director – is most suited to submit the ratings.

The index examined whether the job function of the person submitting the rating impacted results and found no significant difference. Therefore, suppliers and buyers can be assured that outcomes are reliable regardless of who submits the ratings.

¹⁵ Note, this finding was statistically determined by regression analysis, so there is no conversion to "star" ratings. Number of customers significantly predicted scores for Design and Development, $b=-.204$, $t=-3.06$, $p=.003$, and Management of the Purchasing Process, $b=-.170$, $t=-2.50$, $p=.013$. Number of customers also explained a significant proportion of variance for Design and Development, $R^2=.056$, $F(2,215)=6.44$, $p=.002$, and Management of the Purchasing Process, $R^2=.028$, $F(2,215)=3.13$, $p=.046$.

5. Conclusions and Recommendations

Better Buying's first rating cycle exceeded expectations:

- Buyer and supplier participation rates reached the goals set for two rating cycles.
- First-of-its-kind information and analysis has expanded knowledge about the broad range of purchasing practices suppliers find most challenging in operating sustainable businesses.
- A baseline of performance for the apparel, footwear, and household textiles industries has been set, and the BBPPI provides a tool to track improvements over time.

The scores reveal that while buyers are performing well in some areas, improvements are needed in others.

Buyers in the BBPPI that were rated a minimum of five times were provided detailed reports on their scores so that they can begin to make improvements supporting increased business efficiency and profitability, reduced risks, and improved workplace conditions.

What are 'best' and 'worst' doing differently?

To highlight 'best' and 'worst' practices, we have included anonymous case studies from the Q4 2017 Better Buying rating cycle (see below).

'BEST' BETTER BUYING CASE STUDY

Best is a North America-based Apparel, Accessories, and Luxury Goods buyer that earned an overall Better Buying score of 4.5. Best received 3.5 stars in Planning and Forecasting for providing a forecast 60-89 days in advance, updating the forecast regularly, and being within +/- 10% or less of the capacity reserved for them when placing orders. Best will achieve a higher score by pushing its forecasting further into the future and maintaining a high level of accuracy. Best scored 5 stars for Design and Development—its supplier received orders on all the products developed for the buyer and delivered 100% of its tech packs accurately and on time. They also earned 5 stars for Cost and Cost Negotiation for paying prices that cover compliant production for all orders. Best did

not use high pressure negotiation strategies. Best earned 2 stars for Sourcing and Order Placement. The buyer pays premium prices and provides other incentives for compliant production. However, the ORR was over 90%, so the month-to-month orders reflected considerable volatility. Best also earned 5 stars for Payment and Terms, paying its bills on time and in full. They were rated 5 stars for Management of the Purchasing Process, with enough time provided on the TNA and all critical milestones met. They scored 5 stars for CSR Harmonization; there were no internal conflicts within the buyer company and they were flexible in accepting recently completed audits.

'WORST' BETTER BUYING CASE STUDY

Worst is a North American Apparel Retail company, which earned 0 stars in its overall Better Buying rating. It provided the supplier with a forecast 60-89 days in advance, updated regularly, and booked capacity in advance; however, the accuracy of their forecasting was off by +/- 51-60% of the capacity that had been reserved. Therefore, Worst scored 0 stars for Planning and Forecasting. Just 1.5 stars were earned for Design and Development, due to a very low hit rate and inaccurate and late tech packs 80-89% of the time. They earned 0 stars for Cost and Cost Negotiation due to fewer than 5% of orders priced to cover

compliant production. Worst used high pressure negotiating strategies. No incentives were provided for compliant production, but the ORR was near zero, indicating stable month-to-month business (which is probably why the supplier agreed to take the business with Worst). This led to Worst earning 1.5 stars for Sourcing and Order Placement. The supplier was paid 10 days late and not in full due to various tactics used by the buyer to reduce payment, resulting in 0 stars for Payment and Terms. For Management of the Purchasing Process, Worst earned 1.5 stars. The company hit almost all the deadlines in its TNA

calendar, but the calendar didn't have enough time for production to begin with. Worst earned 0 stars in CSR Harmonization, even though the company accepted recent audits in lieu of those specific to the buyer. The poor score was heavily influenced by internal conflicts within the buyer company regarding prices and led to several impacts on the factory floor, including overtime in excess of the law or code requirements and inability of the supplier to pay full social benefits.

CONCLUSIONS AND RECOMMENDATIONS

Better Buying extends three overarching conclusions and subsequent recommendations.

CONCLUSION	RECOMMENDATION
<p>1. Current business practices are unsustainable. The impact of poor purchasing practices on suppliers and the inefficiencies they cause for buyers pose material and reputational risks, and threats to workers in supply chain relationships. Without predictable business, adequate production time, mutually beneficial financing, and incentives for suppliers helping to achieve shared goals, there can be no sustainable business for suppliers or buyers.</p>	<p>In order to facilitate sustainable supply chains, buyers must begin to:</p> <ul style="list-style-type: none"> • Improve the predictability and consistency of business with suppliers • Offer and maintain enough time for production • Eliminate financial tactics that erode suppliers' abilities to cover the costs of business • Support and incentivize suppliers' sustainable business operations.

CONCLUSION	RECOMMENDATION
<p>2. Industry-wide transformation of buyer purchasing practices demands leadership.</p> <p>A circle of leaders has begun to form among stakeholders deeply committed to changing the way business is conducted, to benefit all those involved. This includes buyers stepping forward to engage with Better Buying, suppliers placing trust in the safe system created for them, and multi-stakeholder initiatives pushing their members for improvements. These leaders should be praised for being the first to embark on the uncertain path required to improve purchasing practices and others should be encouraged to follow.</p>	<p>While the BBPPI has created an opportunity for suppliers to communicate their experience of buyer purchasing practices, more buyers need to engage with Better Buying. By inviting their suppliers to participate in upcoming rating cycles, buyers can better understand their purchasing practices and identify areas of improvement.</p> <p>Department Stores especially are encouraged to engage with Better Buying now so that the BBPPI can reflect the experiences of a more representative group of suppliers.</p> <p>Suppliers agreeing that changes are needed should submit ratings now rather than waiting for invitations from their buyers. Better Buying can amplify suppliers' voices and help empower them as valued business partners. With further ratings, Better Buying can improve accuracy, begin to identify more trends, and provide a knowledge base from which improvements can be made.</p> <p>Multi-stakeholder initiatives whose members have made commitments to responsible purchasing practices and improving workplace conditions can use the BBPPI to measure their performance across the seven categories of purchasing practices. The BBPPI's practical collection and analysis of supplier ratings will measure change over time, and provide an independent assessment of the impacts of multi-stakeholder initiatives.</p>
CONCLUSION	RECOMMENDATION
<p>3. The BBPPI is a practical tool for improvement.</p> <p>The BBPPI has identified a range of practices within each Buyer Type (Apparel, Accessories, and Luxury Goods; Apparel Retail; Department Stores; and General Retail), indicating the opportunity for buyers with poorer performance to improve their scores, and spur a 'race to the top'.</p>	<p>All apparel, footwear, and household textiles buyers can use the BBPPI to review their own practices and begin to change their day-to-day practices, so that performance in purchasing practices improves over time.</p> <p>Buyers from under-represented Buyer Types such as General Retail and Department Stores and their peers within these types, such as footwear or active wear buyers, should engage with Better Buying to gain actionable information as a basis for making their categories stand out for best (rather than worst) practices.</p>

A circle of leaders has begun to form among stakeholders deeply committed to changing the way business is conducted to benefit all those involved...

WHAT ARE THE RESULTS OF UNPREDICTABLE BUSINESS?

- What is the right number of workers for a supplier to employ when orders rise and fall dramatically each month? How does a supplier plan, when there is no visibility into the orders likely to be received? Unpredictable business makes it difficult for suppliers to plan and it increases financial and reputational risk for all parties. The effects of unpredictable business include:
 - Production being outsourced to sub-contract facilities
 - Excessive overtime
 - Hiring of casual labor
 - Failure to meet full social benefits due to higher than anticipated costs
 - Retrenchment and layoffs during low production months
 - Lower product quality
 - Supply disruption for buyers
 - Reduced business efficiency for suppliers.

The relationship between purchasing practices and their impacts on workplace conditions and business are discussed here.

Unpredictable business

A supplier's business is made unpredictable by poor planning and forecasting, low hit rates, and erratic monthly orders. The box to the left provides an example of how these purchasing practices impact workers and the business of both buyers and suppliers.

Improving the predictability of business for suppliers allows them to lower overtime expenses, improve worker retention rates, and lower production stress. This should then result in fewer disruptions to production and lower supply chain insurance costs.

Not enough time for production

Figure 9 illustrates the cycle of poor purchasing practices which can shorten the amount of time suppliers have for production. Without enough time for production, suppliers may have to resort to outsourcing to subcontracted facilities, increasing overtime (perhaps without pay since these would be unexpected costs), or hiring temporary laborers that may not have the same rights as a permanent workforce. These practices are leading factors in supply chain disruption, which can affect business efficiency, profitability and pose increased risks for buyers and suppliers.

Carrying out work accurately and to deadline the first time reduces waste in business operations. Providing sufficient production time frames results in increased on-time delivery rates, reduced air freight charges, avoidance of supply disruption, and improved quality of life for factory workers.

Financial strain on suppliers

The poor purchasing practices identified in the BBPPI can contribute to rising costs, reduced margins, and risks of financial insolvency for suppliers. While factory workers may be the first to feel the pressure of damaged supply chains, buyers will also experience material and reputational risks.

Buyers should support more sustainable supply chains by eliminating costing and payment tactics that place financial strain on suppliers. As a result, wage and benefit compliance will increase unexpected costs will decrease, and suppliers can make more efficient use of their working capital.



Figure 9. Not enough time for production

Incentivizing sustainable business

Sustainable business operations require suppliers to meet margins of profitability in line with the value they offer. Pressure is placed on suppliers to reduce overtime or pay higher wages and yet suppliers are not always paid to deliver on these demands.

When buyers fail to incentivize suppliers' sustainable business practices, or choose to ignore noncompliance, it becomes clear that orders are placed based on lowest cost possible. This can force suppliers to cut corners wherever possible and increase production risks, leading to reputational risks in buyers' supply chains.

Providing valuable incentives can manage risks and enable suppliers to meet all buyer requirements while still earning reasonable profits.

Changes to supply chain practices will not happen overnight. It is hoped that the BBPPI will spur a 'race to the top' among buying companies eager to increase operational efficiency while protecting their reputations, profits, and avoiding lost sales. Buyers will therefore be able to maintain stable, financially sound supply chains with the capacity to meet quality, environmental, and workplace standards.

Better Buying is Better Business, and Better Workplace Conditions.

Appendix

BETTER BUYING SCORE	STARS: INDUSTRY BENCHMARK	AVERAGE ALL SUBMITTED RATINGS (SD) (N=218)	MINIMUM SCORE	MAXIMUM SCORE
Overall	★ ★ ★	70.44 (10.67)	33 (2*)	91 (5*)
Planning and Forecasting	★ ★	53.65 (29.17)	0 (0*)	100 (5*)
Design and Development	★ ★ ★	66.47 (18.56)	0 (0*)	100 (5*)
Cost and Cost Negotiation	★ ★ ★ ★	82.09 (24.38)	0 (0*)	100 (5*)
Sourcing and Order Placement	★	32.90 (20.77)	0 (0*)	83 (4.5*)
Payment and Terms	★ ★ ★ ★ ★	91.24 (18.15)	0 (0*)	100 (5*)
Management of the Purchasing Process	★ ★ ★ ★	82.22 (22.56)	10 (0.5*)	100 (5*)
CSR Harmonization	★ ★ ★ ★	79.56 (29.04)	0 (0*)	100 (5*)

Table A1. Numerical scores for overall and category ratings

BETTER BUYING SCORE	ASIA PACIFIC (N=9)	EUROPE/UK (N=82)	NORTH AMERICA (N=127)	F	P
Overall	69.67	71.18	70.02	0.317	.729
Planning and Forecasting	56.11	50.37	55.59	0.831	.437
Design and Development	71.11	66.52	66.10	0.305	.738
Cost and Cost Negotiation	87.78	87.56 ^a	78.15 ^a	4.081	.018*
Sourcing and Order Placement	19.67 ^a	27.00 ^b	37.65 ^{ab}	9.080	.000*
Payment and Terms	86.11	93.41	90.20	1.159	.316
Management of the Purchasing Process	78.89	83.05	81.93	0.163	.850
CSR Harmonization	86.67	84.21	76.06	2.266	.106

Table A2. ANOVA of Better Buying scores by region where buyer is located

* $p < .05$ is significantly different

Note. Scores in a row that contain the same superscript are significantly different from each other.

BETTER BUYING SCORE	ASIA PACIFIC (N=9)	EUROPE/UK (N=82)	NORTH AMERICA (N=127)	F	P
ORR%	144.14 ^a	123.75 ^b	85.45 ^{ab}	7.88	.000*

Table A3. ANOVA of ORRs by region where buyer is located

* $p < .05$ is significantly different

Note. Means with the same superscript are significantly different.

BETTER BUYING SCORE	CHINA/HONG KONG (N=99)	EAST ASIA (N=46)	EEMEA (N=7)	SOUTH ASIA (N=21)	US/CANADA (N=26)	WESTERN EUROPE/UK (N=18)	F	P
ORR%	116.36 ^{abcd}	73.21 ^{ae}	115.16	76.42 ^{bf}	75.31 ^{cg}	155.64 ^{defg}	5.28	.000*

Table A4. ANOVA of ORRs by region where supplier is headquartered

* $p < .05$ is significantly different

Note. Means with the same superscript are significantly different from each other. Asia Pacific (n=1) was not included in the analysis.

BETTER BUYING SCORE	CHINA/HONG KONG (N=99)	EAST ASIA (N=46)	EEMEA (N=7)	SOUTH ASIA (N=21)	US/CANADA (N=26)	WESTERN EUROPE/UK (N=18)	F	P
Overall	67.99	71.67	74.14	73.76	72.08	73.11	2.137	.062
Planning and Forecasting	48.64	59.67	52.14	57.62	55.96	57.78	1.163	.329
Design and Development	62.07 ^{abc}	70.54 ^a	72.88	72.38 ^b	64.23	72.78 ^c	2.751	.020*
Cost and Cost Negotiation	85.86 ^a	69.78 ^{abcd}	84.29	83.33 ^b	86.73 ^c	85.00 ^d	3.236	.008*
Sourcing and Order Placement	28.20 ^{abc}	38.26 ^{ad}	30.86	43.33 ^{be}	42.88 ^{cf}	21.06 ^{def}	5.656	.000*
Payment and Terms	88.33	92.83	96.43	96.43	88.46	98.61	1.775	.119
Management of the Purchasing Process	77.58	88.26	88.57	84.52	82.12	86.39	1.806	.113
CSR Harmonization	76.41	85.87	97.14	74.29	74.23	86.67	1.733	.128

Table A5. ANOVA of Better Buying scores by region of supplier headquarters

* $p < .05$ is significantly different

Note. Means with the same superscript are significantly different from each other. Asia Pacific (n=1) was not included in the analysis.

BETTER BUYING SCORE	CHINA/ HONG KONG (N=90)	EAST ASIA (N=55)	EEMEA (N=11)	LATIN AMERICA (N=5)	SOUTH ASIA (N=37)	US/ CANADA (N=11)	WESTERN EUROPE/ UK (N=9)	F	P
Overall	70.41	69.11	74.00	66.00	70.19	74.91	72.67	0.879	.511
Planning and Forecasting	54.50	52.82	53.64	45.00	52.70	57.27	54.44	0.126	.993
Design and Development	64.17	67.18	74.55	56.00	66.49	72.27	73.89	1.285	.265
Cost and Cost Negotiation	86.28 ^a	71.09 ^{ab}	87.78	72.00	85.41 ^b	88.18	87.78	2.947	.009*
Sourcing and Order Placement	30.93	35.35	33.55	36.80	37.14	32.00	18.33	1.301	.258
Payment and Terms	87.89	92.73	93.18	90.00	93.38	95.45	100.00	1.135	.343
Management of the Purchasing Process	81.22	87.00	85.91	74.00	77.03	80.00	87.22	1.019	.414
CSR Harmonization	80.11	77.27	92.73	88.00	71.08	97.73	80.00	1.791	.102

Table A6. ANOVA of Better Buying scores by region where buyers largest order was produced

* $p < .05$ is significantly different

Note. Means with the same superscript are significantly different from each other.

REGION AND COUNTRY	FREQUENCY (N=218)	%
China/Hong Kong	90	41.28%
China	89	40.83
Hong Kong	1	0.46
East Asia	55	25.23
Cambodia	17	7.80
Indonesia	6	2.75
Malaysia	1	0.46
Thailand	4	1.83
Vietnam	27	12.39
EEMEA (Eastern Europe/Central and Western Asia, Middle East, Africa)	11	5.05
Bahrain	1	0.46
Latvia	1	0.46
Mauritius	2	0.92
Tunisia	1	0.46
Turkey	6	2.75
Latin America	5	2.29
Guatemala	2	0.92
Mexico	2	0.92
Nicaragua	1	0.46
South Asia	37	16.97
Bangladesh	13	5.96
India	18	8.26
Pakistan	2	0.92
Sri Lanka	4	1.83
US/Canada	11	5.05
American Samoa	1	0.46
Canada	5	2.29
United States	4	1.83
Virgin Islands, U.S.	1	0.46
Western Europe/UK	9	4.13
Italy	1	0.46
Portugal	7	3.21
Sweden	1	0.46

Table A7. Distribution of regions and countries where buyers' largest order was produced

BETTER BUYING SCORE	APPAREL, ACCESSORIES AND LUXURY GOODS (N=9)	APPAREL RETAIL (N=63)	DEPARTMENT STORES (N=9)	GENERAL RETAIL (N=79)	P	P
Overall	73.15 ^{ab}	68.90 ^{ac}	50.89 ^{bcd}	71.61 ^d	14.569	.000*
Planning and Forecasting	58.88 ^{ac}	49.05 ^b	27.22 ^{abcd}	55.89 ^d	4.018	.008*
Design and Development	75.15 ^{abc}	61.98 ^a	60.56 ^b	63.35 ^c	7.830	.000*
Cost and Cost Negotiation	90.15 ^{abc}	80.16 ^a	71.11 ^b	78.04 ^c	4.074	.008*
Sourcing and Order Placement	23.61 ^{ab}	33.24 ^{ac}	20.22 ^d	41.95 ^{bcd}	12.233	.000*
Payment and Terms	90.52	93.17	77.78	91.84	1.978	.118
Management of the Purchasing Process	85.60 ^a	79.52 ^b	48.89 ^{abc}	85.32 ^c	8.677	.000*
CSR Harmonization	84.48 ^a	79.60 ^b	32.78 ^{abc}	80.70 ^c	9.454	.000*

Table A8. ANOVA of Better Buying scores by buyer type

* $p < .05$ is significantly different

Note. Scores in rows that contain the same superscript are significantly different from each other.

BETTER BUYING SCORE	APPAREL, ACCESSORIES AND LUXURY GOODS (N=9)	APPAREL RETAIL (N=63)	DEPARTMENT STORES (N=9)	GENERAL RETAIL (N=79)	P	P
ORR%	136.45 ^{ab}	101.45 ^a	113.29	72.69 ^b	9.109	.000*

Table A9. ANOVA of ORR by buyer type

* $p < .05$ is significantly different

Note. Scores in rows that contain the same superscript are significantly different from each other.

BETTER BUYING SCORE	DIRECT FROM BUYER (N=187)	FROM A 3RD PARTY (N=26)	BOTH WAYS (N=5)	F	P
Overall	71.42 ^a	64.38 ^a	65.60	5.727	.004*
Planning and Forecasting	53.72	53.85	50.00	0.040	.961
Design and Development	53.65	67.43	60.77	1.794	.169
Cost and Cost Negotiation	83.90 ^a	70.19 ^a	76.00	3.869	.022*
Sourcing and Order Placement	33.04	28.88	46.40	1.898	.152
Payment and Terms	91.39	90.38	90.00	0.047	.955
Management of the Purchasing Process	84.22 ^{ab}	73.85 ^{ac}	51.00 ^{bc}	7.774	.001*
CSR Harmonization	81.34	67.50	76.00	2.670	.072

Table A10. ANOVA of Better Buying scores by supplier business model

* $p < .05$ is significantly different

Note. Means with the same superscript are significantly different.

